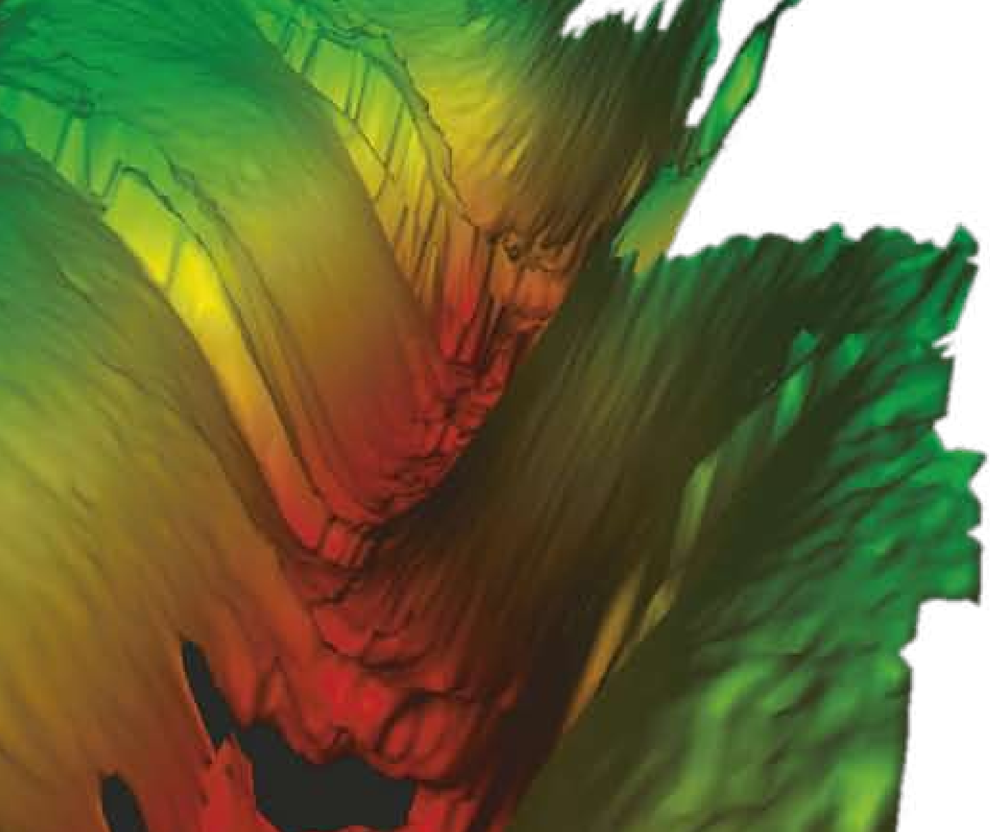
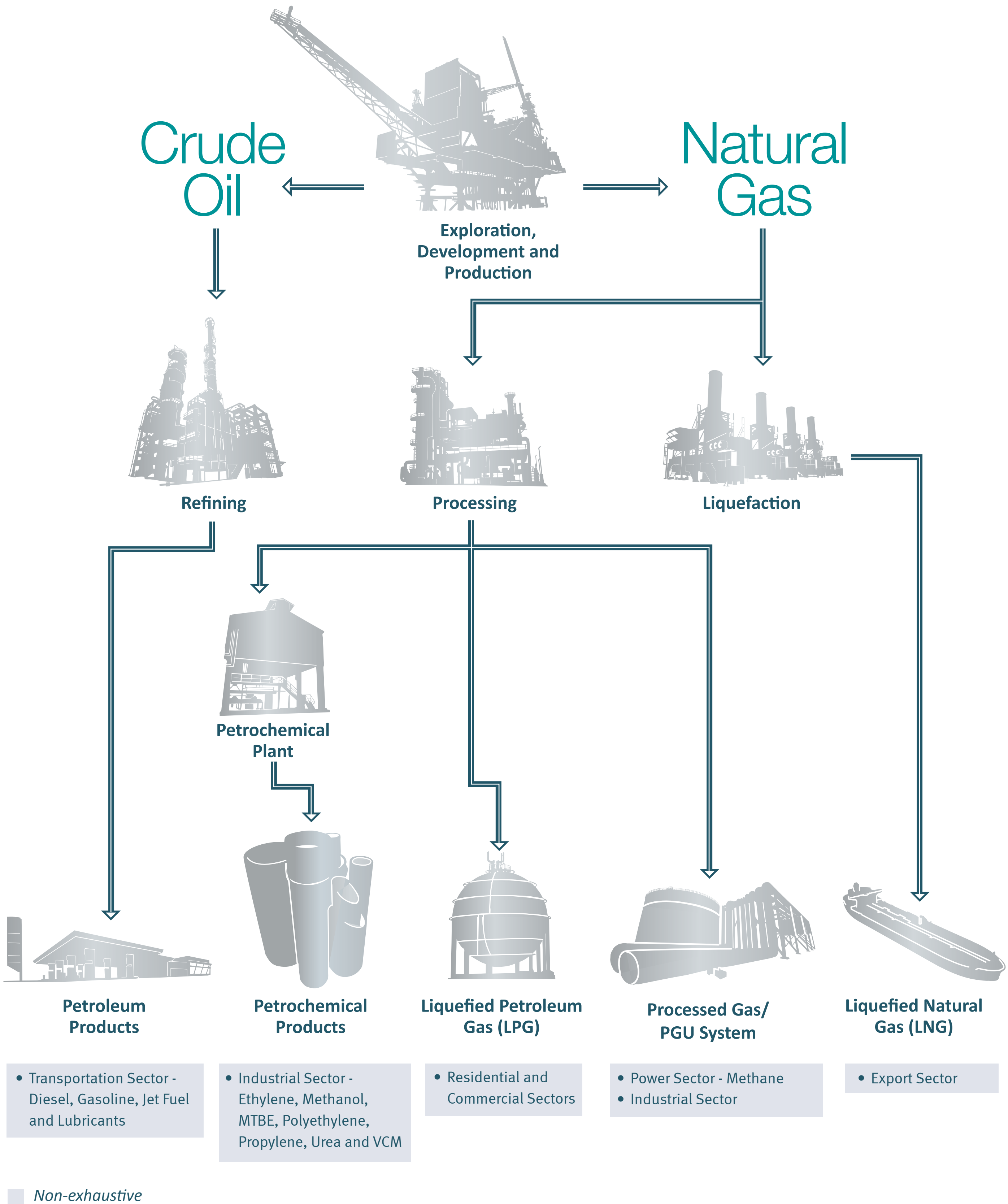
PETRONAS

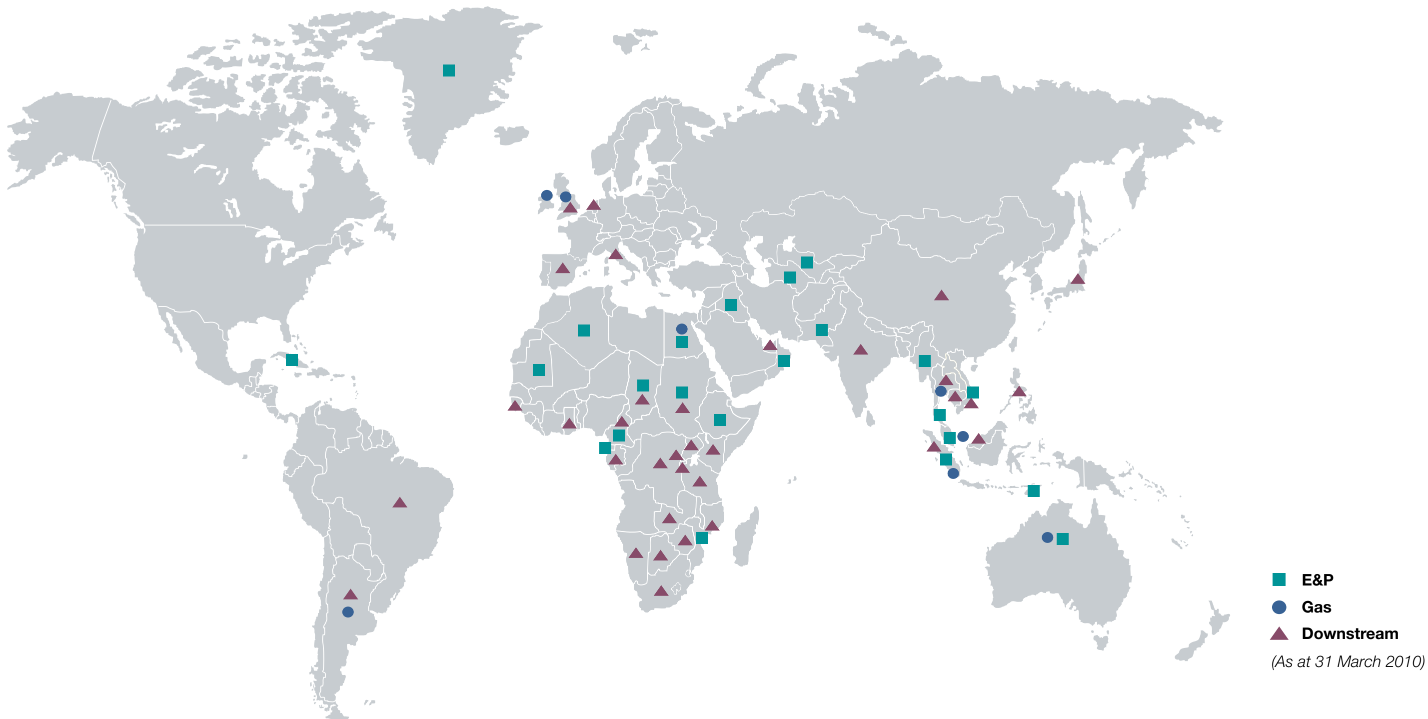
2010
Annual Report



Our Business



Our Presence



Exploration and Production (E&P)

Asia Pacific
- **Australia** – Exploration • **Indonesia** – Exploration, Development and Production • **Myanmar** – Exploration, Development and Production
- **Malaysia**– Exploration, Development and Production • **Malaysia-Thailand Joint Development Area** – Exploration, Development and Production
- **Timor Leste Joint Development Area**– Exploration • **Vietnam** – Exploration, Development and Production

Middle East
- **Iraq** – Development • **Oman** – Exploration

Africa
- **Algeria** – Development • **Chad** – Development and Production • **Cameroon** – Exploration and Development
- **Egypt** – Exploration, Development and Production • **Equatorial Guinea** – Exploration • **Ethiopia** – Exploration
- **Mauritania** – Exploration, Development and Production • **Mozambique** – Exploration • **Sudan** – Exploration, Development and Production

Central Asia
- **Pakistan** – Exploration, Development and Production • **Turkmenistan** – Exploration, Development and Production
- **Uzbekistan** – Exploration, Development and Production

North America
- **Greenland** – Exploration

Latin America
- **Cuba** – Exploration

Gas

Asia Pacific
- **Australia** – Coal Bed Methane-to-Liquefied Natural Gas (LNG) and Pipelines • **Indonesia** – Pipelines • **Thailand** – Gas Processing and Pipelines
- **Malaysia** – LNG, Gas Processing, Gas-to-Liquids, Utilities, Piped Gas, Pipelines, Power, Reticulation and Trading

Africa
- **Egypt** – LNG and Piped Gas

Europe
- **Ireland** – Gas Storage and Piped Gas • **United Kingdom** – Re-Gasification Terminal, Gas Storage, Trading and Power

Latin America
- **Argentina** – Pipelines

Downstream*

Asia Pacific
- **China** – Oil and Petrochemical Businesses • **Cambodia** – Oil Business • **India** – Oil and Petrochemical Businesses
- **Indonesia** – Oil and Petrochemical Businesses • **Japan** – Oil and Petrochemical Businesses • **Malaysia** – Oil and Petrochemical Businesses
- **Philippines** – Oil and Petrochemical Businesses • **Thailand** – Oil and Petrochemical Businesses • **Vietnam** – Oil and Petrochemical Businesses

Middle East
- **United Arab Emirates** – Oil and Petrochemical Businesses

Africa
- **Botswana** – Oil Business • **Burundi** – Oil Business • **Cameroon** – Oil Business • **Chad** – Oil Business
- **Democratic Republic of Congo** – Oil Business • **Gabon** – Oil Business • **Ghana** – Oil Business • **Guinea Bissau** – Oil Business
- **Kenya** – Oil Business • **Mozambique** – Oil Business • **Namibia** – Oil Business • **Rwanda** – Oil Business • **Sudan** – Oil Business
- **South Africa** – Oil Business • **Tanzania** – Oil Business • **Uganda** – Oil Business • **Zambia** – Oil Business • **Zimbabwe** – Oil Business

Europe
- **Italy** – Oil Business • **Netherlands** – Oil Business • **Spain** – Oil Business • **United Kingdom** – Oil Business

Latin America
- **Argentina** – Oil Business • **Brazil** – Oil Business

Includes Engen subsidiaries, and marketing and trading offices.

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Corporate Statements

VISION

To be a Leading Oil and Gas Multinational of Choice

MISSION

We are a business entity

Petroleum is our core business

Our primary responsibility is to develop and add value to this national resource

Our objective is to contribute to the well-being of the people and the nation

SHARED VALUES

Loyalty

Loyal to nation and corporation

Integrity

Honest and upright

Professionalism

Committed, innovative and proactive and always striving for excellence

Cohesiveness

United in purpose and fellowship

Corporate Profile

PETRONAS at a Glance

PETRONAS, the acronym for Petroliam Nasional Berhad, was incorporated on 17 August 1974 under the Companies Act, 1965. It is wholly-owned by the Malaysian Government and is vested with the entire ownership and control of the petroleum resources in Malaysia through the Petroleum Development Act, 1974. Over the years, PETRONAS has grown to become a fully integrated oil and gas corporation and is ranked among the FORTUNE Global 500® largest corporations in the world.

Exploration & Production Business

As custodian of Malaysia's oil and gas resources, PETRONAS is entrusted with the responsibility to develop and add value to the nation's hydrocarbon resources. In the early years, we focused our efforts on managing the production sharing contractors who were exploring Malaysian acreages, but we soon saw the need to take on a bigger and more proactive role in augmenting the nation's oil and gas reserves.

Through our Exploration and Production (E&P) subsidiary, PETRONAS Carigali Sdn Bhd (PETRONAS Carigali), we have developed capability as a hands-on operator with a track record of successful oil and gas developments. PETRONAS Carigali works alongside a number of petroleum multinational corporations through Production Sharing Contracts (PSCs) to explore, develop and produce oil and gas in Malaysia. Abroad, we continue to strengthen our position by securing new acreages while undertaking various development projects.

The Petroleum Management Unit (PMU) of PETRONAS acts as resource owner and manager of Malaysia's domestic oil and gas assets. It manages the optimal exploitation of hydrocarbon resources and enhances the prospectivity of domestic acreages to attract investment and protect the national interest. One of the key drivers of our business growth is deepwater E&P, with many positive prospects emerging in Malaysian acreages.

We continue to harness and develop new technologies to maximise opportunities and further strengthen our capabilities in our efforts to become a leading global E&P player.

Gas Business

PETRONAS focuses its Gas Business on downstream operations, which include the liquefaction, sale, transportation, regasification and trading of liquefied natural gas (LNG); the processing, sale and transmission of natural gas; and other gas-related businesses. PETRONAS believes that Malaysia's offshore gas reserves provide an opportunity for it to play an important role in satisfying the growing energy and petrochemical demand of Malaysia and other Asian countries. PETRONAS' strategy is to add value to these natural gas reserves by promoting their use as feedstock for production of natural gas products and petrochemicals, as well as for export sale.

PETRONAS operates one of the world's largest LNG production facilities at a single location in Bintulu, Sarawak, Malaysia. The facilities consist of three plants, MLNG, MLNG Dua and MLNG

Tiga, which have exported a substantial portion of their production to Japan, Korea, Taiwan and China through long-term supply contracts. PETRONAS has a 90% interest in MLNG and a 60% interest in each of MLNG Dua and MLNG Tiga. PETRONAS has also expanded its natural gas liquefaction operations internationally through joint venture projects, primarily in Egypt and Australia, and entered the regasification and LNG trading businesses.

PETRONAS has also ventured into unconventional gas with a joint venture to develop and operate a coal-bed-methane-to-LNG project in Gladstone, Australia.

PETRONAS, through its majority-owned subsidiary, PETRONAS Gas Berhad, operates the Peninsular Gas Utilisation (PGU) system involving six processing plants and approximately 2,505 kilometers of pipelines to process and transmit gas to end-users in the power, industrial and commercial sectors in Peninsular Malaysia and Singapore. The PGU system is the principal catalyst for the development of Peninsular Malaysia's offshore gas fields, the use of natural gas products for power generation and utilities, and the expansion of Malaysia's petrochemical industry through the use of gas derivative products, such as ethane, propane, butane and condensate.

PETRONAS has also invested in pipeline operations in certain overseas locations, including Argentina, Australia, Indonesia and the Malaysia-Thailand Joint Development Area (MTJDA).

Downstream Business

PETRONAS' Downstream Business plays a strategic role in adding further value to petroleum resources through its integrated operations in refining and trading, marketing, and petrochemicals.

Refining and Trading. PETRONAS owns and operates three refineries in Malaysia, two in Melaka (collectively, the Melaka Refinery Complex) and the other in Kertih (the Kertih Refinery). The first refinery in Melaka is 100% owned by PETRONAS and the second refinery is 53% owned by PETRONAS. The Company also operates a Group III base oil refining (MG3) plant in the Melaka Refinery Complex.

PETRONAS has an oil refining presence in Africa through its 80% owned subsidiary, Engen Petroleum Limited (Engen), a leading South African refining and marketing company that owns and operates a refinery in Durban, South Africa.

In addition, apart from eight liquefied petroleum gas (LPG) bottling plants in Malaysia, PETRONAS operates an LPG extraction facility in Bintulu, Sarawak, located in the vicinity of the Group's LNG plants. The facility is operated by MLNG and is designed to extract LPG from the LNG production process.

PETRONAS also has LPG facilities in selected Asian countries. In India, PETRONAS' 50%-owned subsidiary, Indian Oil PETRONAS Private Limited, operates an LPG facility in Haldia, West Bengal. In the Philippines, the Group's LPG terminals are located in Iligan and Davao, and are operated by PETRONAS Energy Philippines Inc, a company in which PETRONAS holds 80% interest indirectly. In Vietnam, the Group owns and operates an LPG terminal and bottling facility in Hai Phong, through Thang Long LPG Company, in which PETRONAS has a 71.2% interest. Also, the Group operates an LPG facility in Dong Nai Province, Vietnam through wholly-owned subsidiary PETRONAS Vietnam Co Ltd.

For trading in crude oil and petroleum products in the Malaysian and international markets (including Asia, Africa and the Indian sub-continent), PETRONAS formed wholly-owned subsidiary PETCO. The company also trades in crude oil and petroleum products produced by affiliates and third parties, and has trading operations in London and Dubai via its wholly-owned subsidiaries PETCO Trading UK Limited and PETCO Trading DMCC, respectively.

PETRONAS Dagangan Berhad (PETRONAS Dagangan), a majority-owned subsidiary, has a 40% interest in Malaysia's Multi-Product Pipeline and the Klang Valley Distribution Terminal (KVDT), which is located south of Kuala Lumpur. The pipeline is used to transport gasoline, jet fuel and diesel oil from PETRONAS' Melaka Refinery Complex and Shell's and ExxonMobil's refineries in Port Dickson to the KVDT. PETRONAS Dagangan also indirectly owns a 65% interest in a joint venture that operates jet fuel storage facility and hydrant line system at the Kuala Lumpur International Airport, Sepang.

Downstream Marketing. PETRONAS is engaged in domestic marketing and retailing activities in Malaysia through PETRONAS Dagangan, a majority-owned subsidiary, which markets a wide range of petroleum products, including gasoline, LPG, jet fuel, kerosene, diesel, fuel oil, asphalt and lubricants. In addition, PETRONAS actively markets and promotes the use of natural gas as a cleaner fuel for vehicles through its wholly-owned subsidiary, PETRONAS NGV Sdn Bhd.

PETRONAS also has retail operations in certain overseas markets. For instance, in the Asian region, PETRONAS' wholly-owned subsidiary, PETRONAS Marketing China Company Ltd, primarily sells lubricant products in target markets in Southern China. In India, PETRONAS formed PETRONAS Marketing India Private Ltd (PMIPL) to market lubricant products in the Indian market. PMIPL has also entered into supply, technical, collaborative and commercial agreements with Fiat, TATA, New Holland and Piaggio for the exclusive supply of lubricants in India. In Indonesia, wholly-owned subsidiary PT PETRONAS Niaga Indonesia operates retail stations as well as markets petroleum products to industrial and commercial customers, and manages a network of local distributors for PETRONAS lubricants. In Myanmar, wholly-owned subsidiary PETRONAS Myanmar Ltd, supplies petroleum products to Myanmar Petroleum Enterprise under a yearly contract. In Thailand, 74%-owned PETRONAS Retail (Thailand) Co Ltd owns and operates a network of retail stations, and markets lubricant products. The company also supplies jet fuel at the Don Muang International Airport and the Suvarnabhumi International Airport, Bangkok.

In the African region, Engen has the largest retail network of service stations in South Africa and, through its international business development unit, Engen also owns service stations in other African countries, including Namibia, Botswana, Burundi, Kenya, Mozambique, Lesotho and Swaziland. In Sudan, PETRONAS' wholly-owned subsidiary, PETRONAS Marketing Sudan Limited is engaged in the marketing and retailing of petroleum products and lubricants, as well as owns and operates retail stations. Also, the company provides into-plane service at Khartoum International Airport and at El-Obeid International Airport, which is the main base for the UN World Food Programme's operations In Sudan. In addition, the company supplies fuel to the UN-African Union Mission peacekeeping force in Darfur and it operates refueling stations and depots across the region.

In the European region, PETRONAS Lubricants International Sdn Bhd (PLISB), a wholly-owned subsidiary of PETRONAS, has established a manufacturing base and distribution channel to sell its lubricants in the European market, by virtue of acquiring FL Selenia Group (renamed PL Italy Group). It offers lubricants, transmission, anti-freeze and functional fluids for automobiles, trucks, agricultural tractors and earth moving machinery as well as for other industrial equipment. Leveraging on PL Italy Group's strong OEM relationships and world-class research and development capabilities, PLISB currently has a long-term supply, technical, collaborative and commercial agreement expiring in 2020 for the exclusive right to supply lubricants to Fiat Italy through PL Italy Group.

Also in the lubricants marketing sector, PETRONAS Base Oil (M) Sdn Bhd (PBOM), a wholly-owned subsidiary of PETRONAS, has been established to undertake the marketing of MG3 base oil produced by PETRONAS Penapisan (Melaka) Sdn Bhd in Malaysia and the Asia Pacific region. PBOM has also established a marketing arm in the Netherlands, PETRONAS Marketing Netherlands BV (PMN), to undertake the marketing of MG3 base oil in Europe. PETRONAS markets its base oil products under the brand ETRO.

PETRONAS Aviation Sdn Bhd, a wholly-owned subsidiary of PETRONAS, markets PETRONAS' aviation fuel in the global market, including to Malaysian Airline System Berhad, as well as to Shell, Ceylon Petroleum Corporation and Repsol YPF for locations in Hong Kong, Colombo and Buenos Aires.

Petrochemical Business. PETRONAS has expanded its petrochemical business by utilising its supply of gas as petrochemical feedstock, which is consistent with PETRONAS' strategy to further utilise and add value to gas resources. While the production of certain basic petrochemicals has been phased in since the mid-1980s, in more recent years, PETRONAS has embarked on several large-scale petrochemical projects with multinational joint venture partners. PETRONAS' joint venture partners have included The Dow Chemical Company, BASF Netherlands BV, BP Chemicals, Idemitsu Petrochemical Co Ltd, Mitsubishi Corporation, and Sasol Polymers International Investments (Pty) Ltd.

In addition, through joint ventures with multinational petrochemical companies, PETRONAS has developed two Integrated Petrochemical Complexes (IPCs) at Kertih and Gebeng, along the eastern corridor of Peninsular Malaysia. The concept underlying the IPCs is to achieve a competitive edge through the integration of petrochemical projects using common or related feedstock and common facilities within a self-contained complex.

The Kertih IPC consists principally of ethylene-based petrochemical projects, which include two ethylene crackers, a polyethylene plant, an ethylene oxide/ethylene glycol plant, a multi-unit derivatives plant, vinyl chloride monomer (VCM) and polyvinyl chloride (PVC) plants, ammonia/synthesis gas plants, an acetic acid plant, an aromatics complex and a low-density polyethylene plant. The petrochemical projects are fully integrated with the surrounding infrastructure facilities and other process plants in Kertih, including PETRONAS Gas Berhad's six gas processing plants (GPPs) and the Kertih Refinery, which are located within the IPC. A joint venture among PETRONAS (40%), Dialog Equity Group Sdn Bhd (30%) and Vopak Terminals Penjuru Pte Ltd (30%) owns and operates the storage and distribution terminal, which has a throughput of approximately 2.7 mmtpa. The Kertih marine facilities include six berths that can accommodate chemical tankers up to 40,000 dead-weight metric tons.

The Gebeng IPC principally contains propylene-based petrochemical projects. The anchor project at the Gebeng IPC is a joint venture between PETRONAS and BASF, which owns and operates an acrylic acid/acrylic esters plant, an oxo-alcohols complex and a butanediol plant. PETRONAS, through its wholly-owned subsidiaries, owns and operates an MTBE/propylene plant, a propane dehydrogenation plant and a polypropylene plant. The Gebeng IPC is also host to a number of multinational chemical companies, such as BP Chemicals, which owns and operates a purified terephthalic acid plant, and Eastman Chemicals, which owns and operates a copolyester plastic resin plant.

The plants in both of the IPCs are supported by PETRONAS' centralised infrastructure facilities at each of the two complexes, including Centralised Utility Facilities and chemical storage and distribution terminals.

The Kertih and Gebeng IPCs are a major step towards establishing Malaysia as a regional petrochemical production hub. The integrated development of Malaysia's petrochemical industry is expected to promote the development of the country's industrial base, especially the plastics and chemical-based component manufacturing industries. PETRONAS' long-term strategy is to promote and participate in downstream development and to support the industrial development of Malaysia. As such, PETRONAS is a major producer of methanol, ammonia and urea, as well as ethylbenzene and styrene monomer.

The Group is expanding its operations internationally through select partnerships. For instance, in Uzbekistan, PETRONAS has a joint venture agreement with Sasol and Uzbekneftegaz to jointly participate in a gas-to-liquids project. In Vietnam, PETRONAS has a 93.1% interest in Phu My Plastics and Chemicals Co Ltd, a joint venture with Vung Tau Shipyard Co, which owns and operates a PVC plant in Vung Tau, Vietnam. With a capacity of 100,000 tpa, the PVC plant sources its feedstock from PETRONAS' VCM plant located in the Kertih IPC.

While some plants within PETRONAS' petrochemical business sell their products directly to customers, PETRONAS markets petrochemical products through its marketing arm Malaysia International Trading Corporation Sdn Bhd (MITCO) and its marketing entities in Labuan and India. As the main marketing arm for PETRONAS' petrochemical products, MITCO has emerged as a leading marketer of chemicals, fertilisers and polymer products in the Southeast Asia region.

MITCO has been established principally to market products manufactured by PETRONAS' petrochemical plants. It leverages on the synergistic advantages of the strategic development of the two IPCs along the east coast of Peninsular Malaysia and the consistent production of large volumes of petrochemicals from these plants.

MITCO Labuan Co Ltd (MLCL) is a wholly-owned subsidiary of PETRONAS. It is involved principally in the trading of chemicals, fertilisers, polymers and general commodities, so as to complement MITCO's global business ventures.

MITCO Labuan India Pvt Limited has been set up as a wholly-owned subsidiary of MITCO Labuan Co Ltd to support its trading and related activities in India.

Logistics and Maritime Business

Led by subsidiary MISC Berhad (MISC), PETRONAS' Logistics and Maritime Business' focus is primarily on energy transportation and logistics, and other energy-related businesses. MISC serves as PETRONAS' primary LNG transportation provider and its principal logistics solutions provider. MISC's energy-related shipping is complemented by its offshore business and its heavy engineering business. MISC's offshore business provides Floating Production, Storage and Offloading (FPSO) and Floating Storage and Offloading (FSO) systems to support oil and gas companies operating offshore in the production, storage and evacuation of oil and gas to an onshore terminal facility. MISC engages in the heavy engineering business to provide ship maintenance and repair services, to convert ships into FPSOs and FSOs, and the construction of oil and gas facilities and related services.

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Corporate Enhancement to Elevate PETRONAS' Robustness

The near-term outlook for the global oil and gas industry is one of cautious optimism. Amid the tentative signs of stability returning to the global economy, questions over the timing and likely strength of a sustained pick-up in economic activity continues to cast a long shadow over impending demand prospects.

Over the longer-term, the industry continues to be confronted by the challenge of simultaneously delivering higher energy volumes amid harder-to-access reserves and lower carbon emissions, while sustaining energy prices at affordable levels.

Against this backdrop, PETRONAS has put in place wide-ranging measures that will enhance the Group's structure and business to meet challenges facing the Corporation in an increasingly competitive global oil and gas industry.

As with other Visionary Corporations, PETRONAS continues to demonstrate its nimbleness and ability to change from within in adapting to what is now highly volatile external variables.

This wave of change aims to realise PETRONAS' full potential towards achieving Global Championship. Anchoring these initiatives are imperatives of:

- Ensuring greater Ownership & Accountability
- Elevating Governance & Transparency to international standards
- Focusing resources to Core business activities
- Establishing clear and visible Succession Planning & Leadership Development

This journey began with the PETRONAS Board. In reconstituting the Board, members were selected based on calibre, credibility, necessary skill and experience to provide independent judgment on issues of strategy, performance and resources, including key appointments and standards of conduct, the combination of which aims to provide relevant and accretive perspectives, in steering PETRONAS' future course.

In addition, the Board's role was redefined as the strategic and governance steward in forging sustainable growth for PETRONAS. The Board's Governance framework was redesigned to enable the members to effectively discharge their responsibilities with the establishment of two new Board committees, they are Remuneration and Nomination/Corporate Governance Committees over and above the already established Audit Committee. Collectively the Board and its committees ensure that transparency and corporate governance practices are of international standards expected of a corporation such as PETRONAS. The structure ensures balance of power and authority, with no individuals having unfettered powers of decision, with a strong element of independence and governance.

Leadership development and succession planning are also key functions of the Board in strategically ensuring performance enhancement of current and future leaders.

Today's business environment demands more large-scale change via new strategies, reengineering, restructuring, mergers, acquisitions and strategic partnerships. As a result, the nature of decision making is driven by bigger, more complex, more emotionally-charged issues such as environmental, human rights, etc. No one individual has the information to make all major decisions or the time and credibility to convince lots of people to implement the decisions.

Decisions must be guided by a powerful coalition that acts as a team.

Accordingly, as part of the Corporate Enhancement, PETRONAS established an Executive Committee led by the President & CEO and four Executive Vice Presidents as the leadership bench to exercise some powers of decision making as delegated by the Board through the President & CEO.

The Executive Vice Presidents will lead four key portfolios and be fully accountable for the operational and financial performance of their respective businesses namely Exploration and Production, Gas, Downstream and Finance. The Corporate Center has been streamlined to ensure better integration and ownership in delivering the various functions.

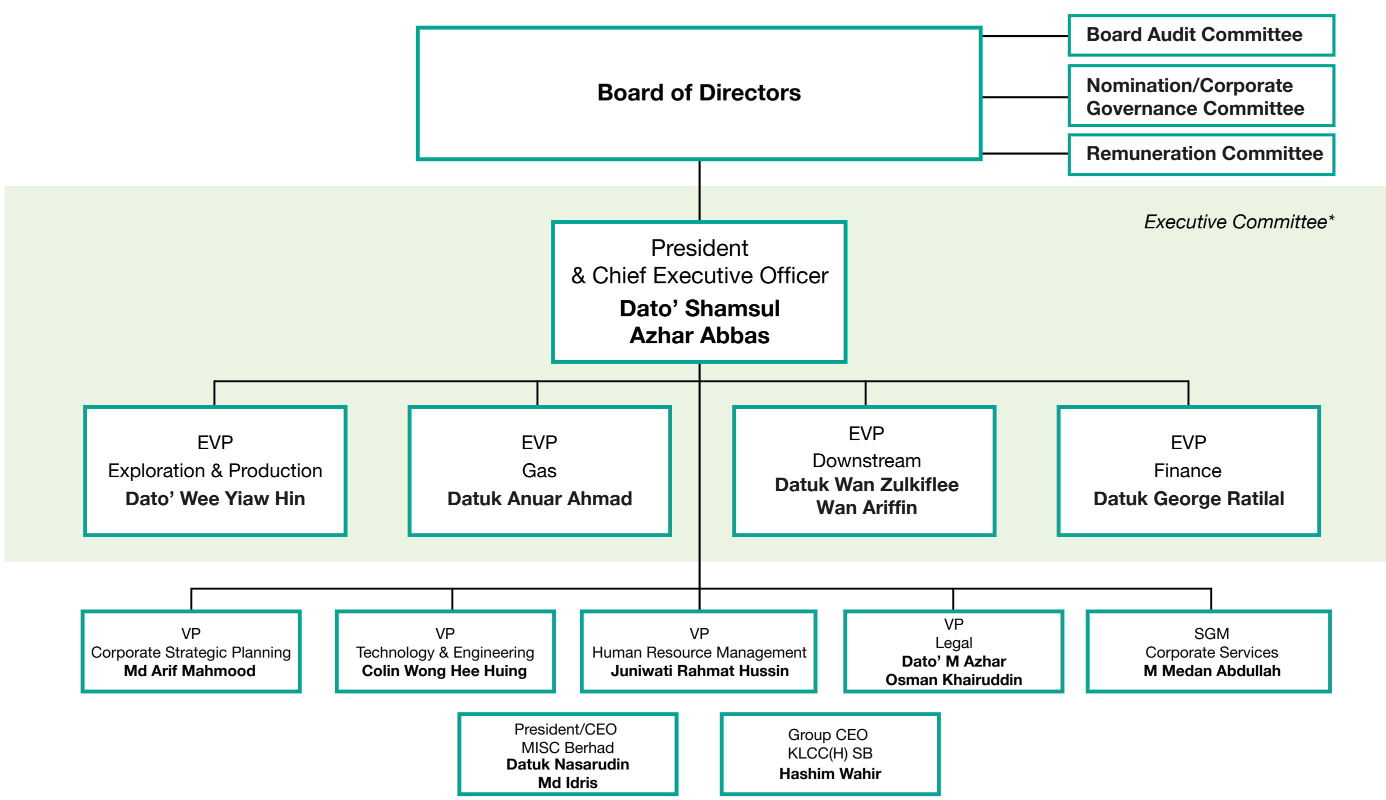
By focusing on these core areas of business, PETRONAS has realigned the Group's structure to concentrate efforts in supporting its core businesses, which entail the rebalancing of portfolios, optimising costs and channelling resources into quality assets.

The bloodline of this enhancement is derived from a strengthened culture of behaviours that are:

- **Externally orientated**
- **Empowered & accountable**
- **Quick to make decisions**
- **Open & candid**
- **More risk tolerant**

These will be built upon the core values of **Loyalty**, **Integrity**, **Professionalism** and **Cohesiveness** that is the current PETRONAS DNA.

Leadership and capability development continues to be at the forefront of initiatives as the overarching foundation for superior performance.



**Executive Committee comprises the President & Chief Executive Officer and the four Executive Vice Presidents*

EVP - Executive Vice President
VP - Vice President
SGM - Senior General Manager

Financial Results

Five-Year Group Financial Highlights

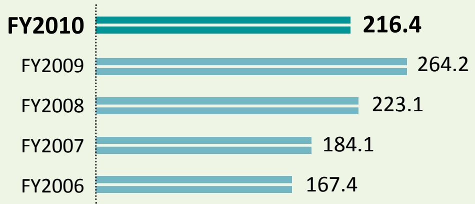
RM billion

	FY2010	+/-	FY2009 (restated)	FY2008	FY2007	FY2006
Revenue	**216.4**	(18.1%)	264.2	223.1	184.1	167.4
EBITDA	**85.3**	(22.2%)	109.6	109.9	88.7	80.9
Profit Before Taxation (PBT)	**67.3**	(24.5%)	89.1	95.5	76.3	69.4
Net Profit after Minority Interests	**40.3**	(23.2%)	52.5	61.0	46.4	43.1
Total Assets	**410.9**	5.4%	389.8	339.3	294.6	273.0
Shareholder's Funds	**242.9**	4.7%	232.1	201.7	171.7	147.0

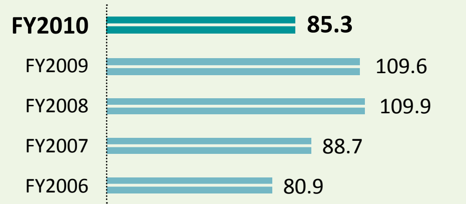
	FY2010	FY2009	FY2008	FY2007	FY2006
Return on Revenue (PBT/Revenue)	**31.1%**	33.7%	42.8%	41.4%	41.5%
Return on Total Assets (PBT/Total Assets)	**16.4%**	23.0%	28.1%	25.9%	25.4%
Return on Average Capital Employed	**25.0%**	36.8%	45.4%	40.8%	41.6%
Debt/Assets Ratio	**0.13x**	0.11x	0.11x	0.12x	0.16x
Debt/Equity Ratio	**17.6%**	15.9%	15.8%	17.4%	23.0%
Dividend Payout Ratio	**74.4%**	57.1%	39.3%	38.8%	39.4%
Reserves Replacement Ratio	**1.1x**	1.8x	0.9x	1.8x	1.7x

RM billion

Revenue

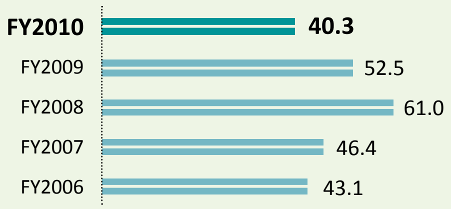


EBITDA

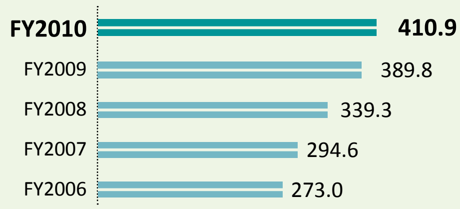


Profit Before Taxation

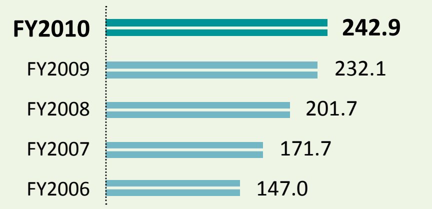
Net Profit after Minority Interests



Total Assets



Shareholder's Funds



Financial Results Highlights for FY2010

RM216.4 billion in revenue

The Group posted revenue of RM216.4 billion for the year, amid a difficult and challenging operating environment.

RM85.3 billion EBITDA

Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) is in line with the year's performance.

RM410.9 billion in total assets

Total assets increased by 5.4% to RM410.9 billion.

RM242.9 billion in shareholder's funds

Shareholders' funds increased by 4.7% to RM242.9 billion.

16.4% Return on Total Assets

Return on Total Assets remained at par with established players in the industry at 16.4%.

25% ROACE

Return on Average Capital Employed (ROACE) of 25% is comparable to the industry average.

17.6%

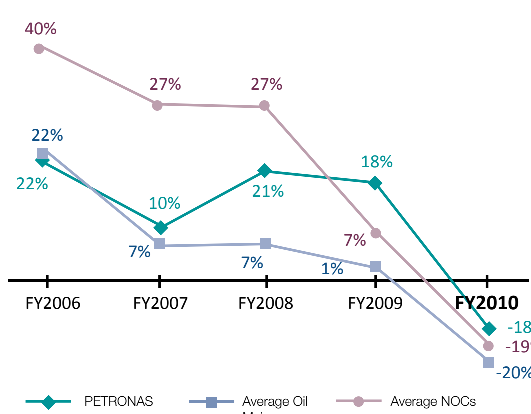
The Group's Debt/Equity ratio remains healthy at 17.6%.

Review of Financial Results

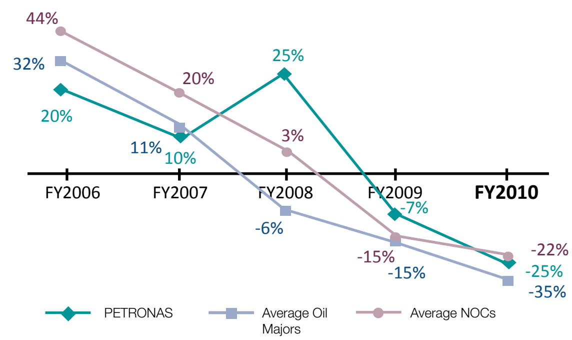
Despite the difficult operating environment, the PETRONAS Group continued to record a resilient performance relative to its peers. The Group recorded a revenue of RM216.4 billion for the year under review, lower compared to the previous year by 18.1% or RM47.8 billion, which was largely due to lower sales prices despite positive contributions from higher volumes sold. EBITDA for the year was RM85.3 billion, whilst the Group's profit before taxation amounted to RM67.3 billion, a decline of 24.5% on the year, which was less profound compared to the -35% average achieved by oil and gas majors and slightly below the -22% average for national oil companies (NOC) for the same period. Net profit after minority interests amounted to RM40.3 billion, recording a decline of 23.2%. Total assets increased by 5.4% to RM410.9 billion and shareholder's funds improved by 4.7% to RM242.9 billion.

The Group's resilient performance was further reflected in various key financial ratios for the year. Return on Revenue and Return on Total Assets stood at 31.1% and 16.4% respectively. Although lower compared to the previous year, they remained either at par with or have outperformed those of the oil majors and NOCs in some instances. Return on Average Capital Employed stood at 25% and, once again, was comparable to the industry average. This performance, consistently delivered throughout the years, stands testimony to the Group's ability to compete efficiently and effectively, even under unfavourable conditions.

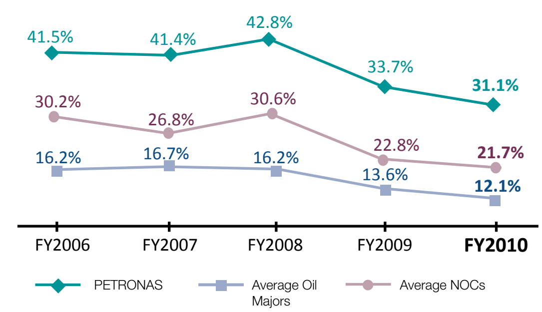
Revenue Trend



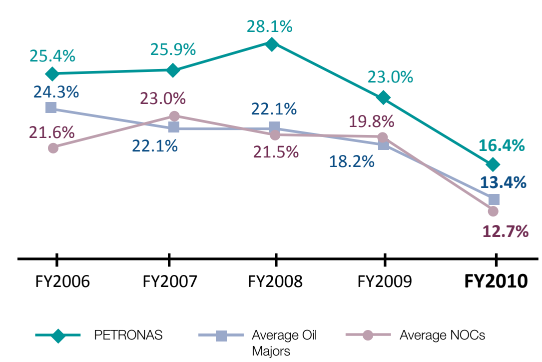
Profit Before Taxation



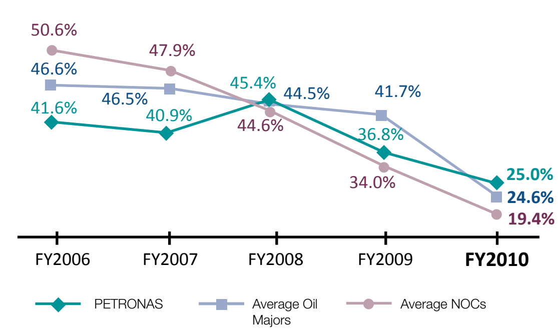
Return on Revenue



Return on Total Assets



Return on Average Capital Employed



The Group's Debt/Equity ratio remained healthy at 17.6%, which was lower than the averages for oil and gas majors and NOCs, despite increased borrowings.

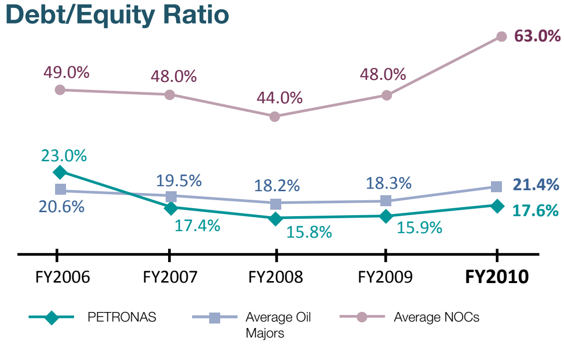
The Group's capital expenditure for the year eased by 15.7% to RM37.1 billion. As in previous years, the bulk of this amount or 72% of the financial year's total capital expenditure for the Group was spent in Malaysia, where it has continued to generate economic activities, as well as nurture domestic capabilities and expertise in the oil and gas value chain. A total of RM26.4 billion, or 71% of the financial year's Group capital expenditure, was allocated to the Exploration and Production (E&P) business. Some 69% of this allocation was in turn spent in Malaysia, reflecting the Group's efforts to replenish the nation's maturing hydrocarbons resource-base through further exploration and development activities at home.

Echoing the extent of the difficult operating environment, the decline in the Group's revenue for the year proved to be broad-based, reflected in lower revenue streams from virtually all products. Nonetheless, the adverse effects of lower sales prices during the year were partially cushioned by higher sales volume, resulting from improved operational efficiency and asset reliability across the Group's businesses.

Note

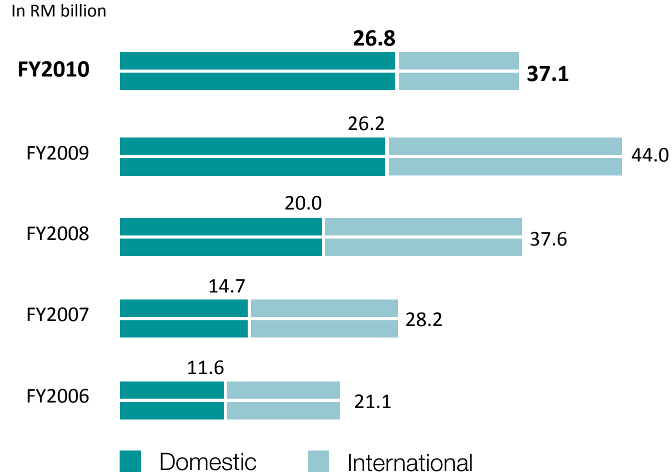
Results of oil majors and NOCs were normalised to be on a consistent basis with PETRONAS' financial period, based on publicly available information. The oil majors consist of Shell, Chevron, ExxonMobil, BP and Total, while NOCs consist of PetroChina, PetroBras, StatoilHydro and Rosneft.

Debt/Equity Ratio

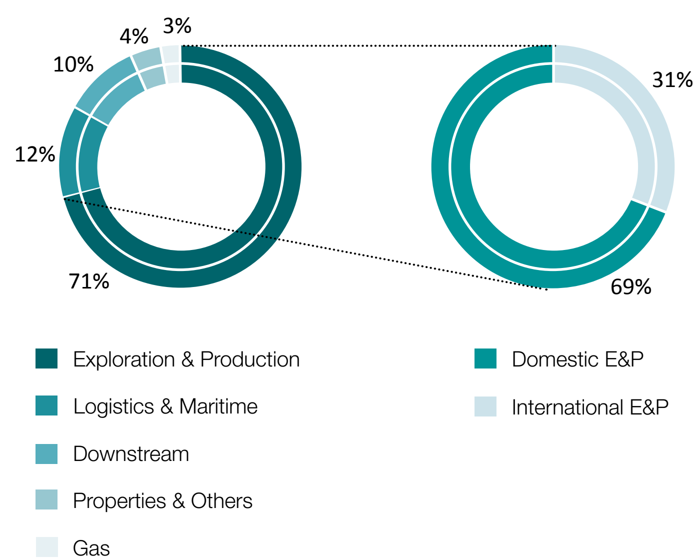


Domestic CAPEX Continues to Dominate Total Expenditure Supporting Local Economic Activities

In RM billion



CAPEX Allocation for FY2010

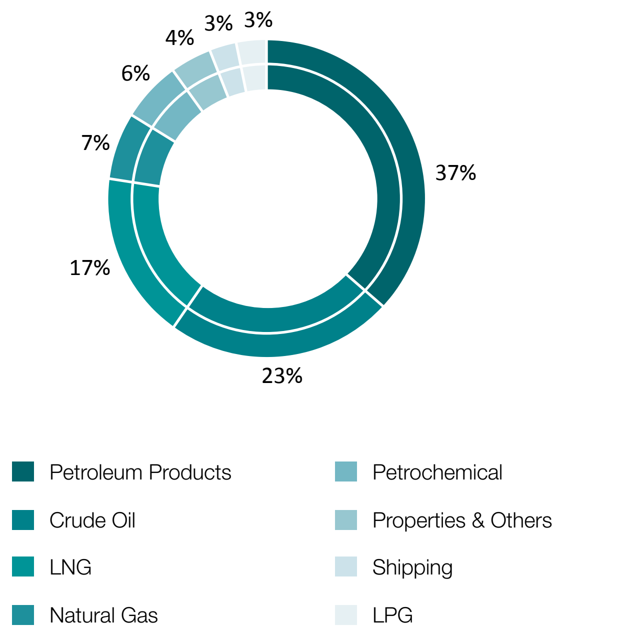


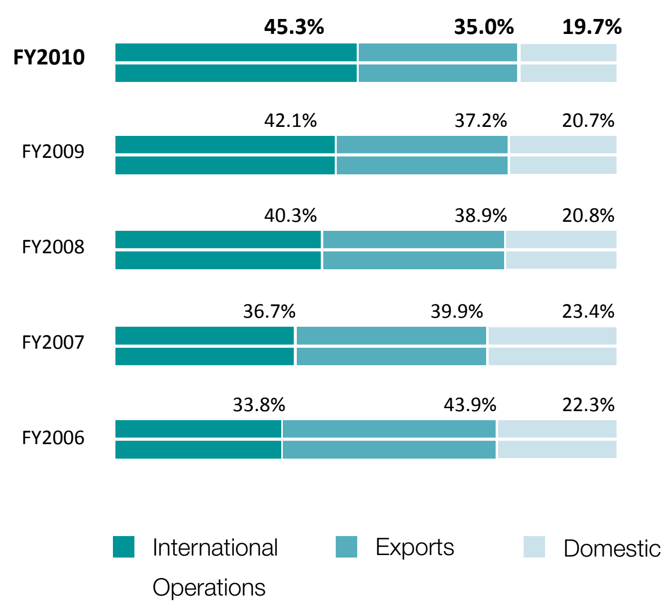
Refined petroleum products retained its top spot as the Group's main revenue generator with sales for the year amounting to RM80.7 billion. This was 12% lower compared to the previous year and reflects the effects of lower sales prices, despite being partially offset by a higher sales volume of 254.1 million barrels. Revenue from the sale of crude oil and condensates, which accounted for 23% of the Group's revenue, declined by 22.7% to RM49.8 billion as a result of both lower sales prices and volume. Liquefied natural gas sales during the year, which contributed 17% to the Group's revenue, amounted to RM37 billion, a decline of 23.7% that primarily reflects lower realised prices of LNG and despite a 4% increase in sales volume having been achieved. Revenue from the sale of petrochemical products during the year, which represented 6% of the Group's total revenue, totalled RM12.7 billion – lower by 3.1% compared to the previous year and despite higher sales volume of 17.5%.

The Group's manufacturing activities, comprising refining of crude oil into petroleum products, the processing and liquefaction of natural gas, as well as manufacturing of various petrochemical products, continued to remain important for adding value to the nation's oil and gas resources. Revenue from manufacturing activities stood at RM121.6 billion, 14% lower compared to the previous financial year.

For the third year running, revenue from international operations continued to make the largest contribution to the Group's revenue at RM98.1 billion or 45.3% of total revenue, reflecting favourably on the Group's globalisation strategy. Revenue from exports declined by 22.9% to RM75.7 billion, mainly due to lower revenue from LNG, crude oil and condensates exports, representing about 13% of Malaysia's total exports over the same period. Nonetheless, revenue from exports contributed 35% of the Group's revenue, where it continued to earn valuable foreign exchange revenue for the nation and contributed positively to the country's balance of payments. Revenue generated from domestic operations, meanwhile, stood at RM42.6 billion or 19.7% of the Group's revenue.

Composition of Revenue for FY2010





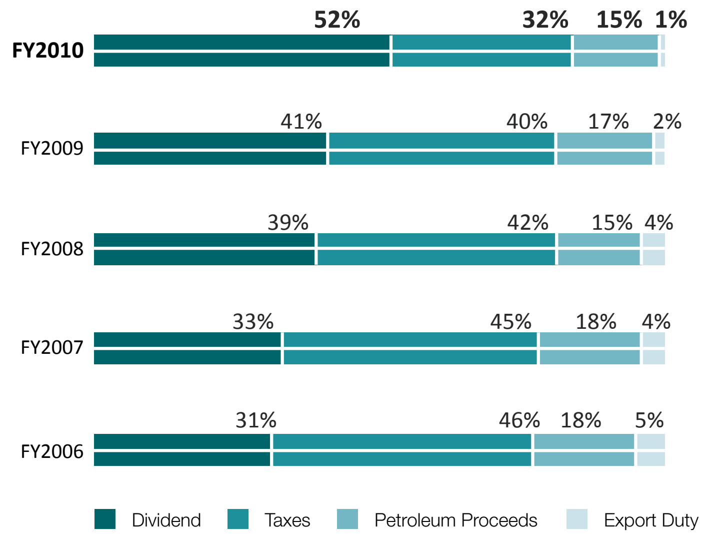
The Group's payments to Malaysia's Federal and State Governments during the year under review amounted to RM57.6 billion. This comprised dividend payment of RM30 billion, taxes of RM18.7 billion, petroleum proceeds of RM8.3 billion and export duties of RM0.6 billion.

Despite a 23.2% decline in net profit after minority interests, the Group retained its dividend payment to the Federal Government at the previous financial year's level of RM30 billion. In terms of the Group's Dividend Payout ratio, i.e. the fraction of net profits paid out as dividends, it has climbed further to 74%, comparable to the trend for IOCs and NOCs.

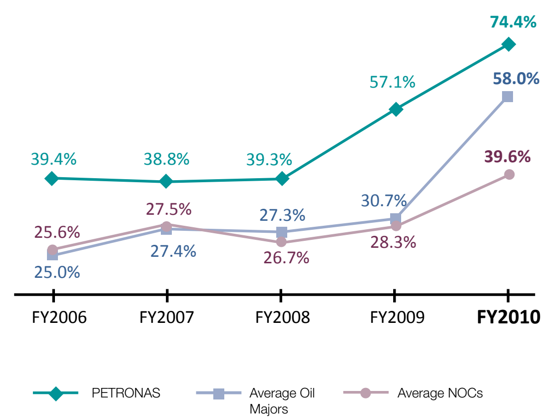
In addition to payments to Federal and State Governments, PETRONAS also continued to bear subsidies associated with the supply of gas to the domestic power and non-power sectors at regulated prices. Despite upward revisions in those prices during the financial year under review, PETRONAS bore a gas subsidy of RM18.9 billion, slightly lower than the previous financial year's RM19.5 billion. Subsidies to the power sector were lower by 11.8% as a result of lower average marked-to-market prices as well as lower off-take by Independent Power Producers (IPP). Gas subsidies to the non-power sector meanwhile increased by 13.2% to RM7.7 billion.

To date, PETRONAS has returned RM529 billion to both Federal and State Governments and, in addition, has borne a cumulative gas subsidy of RM116.4 billion since regulated prices came into effect in May 1997. This ability to uphold its obligations to return value to its stakeholders continues to demonstrate the enduring strength of the Group's business model as an NOC that nevertheless operates commercially and independently.

Components of Payment to the Malaysian Government



Dividend Payout Ratio



	In RM billion			
Gas Subsidy	**FY2010**	+/-	FY2009	Cumulative subsidy since 1997
POWER SECTOR	**11.2**	(11.8%)	12.7	86.6
- TNB	**5.0**	(7.4%)	5.4	37.3
- Independent Power Producers (IPPs)	**6.2**	(15.1%)	7.3	49.3
NON POWER SECTOR - including small industrial, commercial, residential users and NGV	**7.7**	13.2%	6.8	29.8
Total Gas Subsidy	**18.9**	(3.1%)	19.5	116.4

Board of Directors

Dato' Shamsul Azhar Abbas

Acting Chairman of the PETRONAS Board, President & CEO

Dato' Shamsul Azhar Abbas was appointed to the PETRONAS Board as Acting Chairman and as President and Chief Executive Officer of PETRONAS on 10 February 2010. He also serves as Chairman of the Board of several of the Group's subsidiaries, including wholly-owned exploration and production arm PETRONAS Carigali Sdn Bhd, South Africa-based petroleum refining and marketing company Engen Limited and public-listed MISC Berhad. Prior to his current appointment, Dato' Shamsul, who began his career with PETRONAS in 1975, held various senior management positions within the Group.

Krishnan CK Menon, FCA

Independent Director
Chairman of the PETRONAS Board Audit Committee

Krishnan CK Menon was appointed to the PETRONAS Board in April 2010. He is a Fellow of the Institute of Chartered Accountants in England and Wales, a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. He is currently Chairman of Putrajaya Perdana Berhad and SCICOM (MSC) Berhad. He is a non-executive director of MISC Berhad and UBG Berhad. He is also the Chairman of the Board Audit Committee in MISC Berhad.

Tan Sri Dr Wan Abdul Aziz Wan Abdullah

Independent Director

Tan Sri Dr Wan Abdul Aziz is a member of the PETRONAS Board and currently serves as the Secretary-General of Treasury in the Ministry of Finance. He also sits on the Board of various organisations including Malaysia Airlines Berhad, Bintulu Port Holdings Berhad, Bank Negara Malaysia, Retirement Fund Incorporated and the Federal Land Development Authority (FELDA).

Tan Sri Dato' Seri Hj Megat Najmuddin Datuk Seri Dr Hj Megat Khas

Independent Director
Chairman of the PETRONAS Nomination/Corporate Governance Committee

Tan Sri Megat Najmuddin was appointed to the PETRONAS Board in April 2010. He is currently the President of both the Federation of Public Listed Companies Berhad (FPLC) and the Malaysian Institute of Corporate Governance (MICG). He currently serves as the Non-Executive Chairman of several public listed companies and is active in Non-Govermental Organisations (NGOs).

Dato' Muhammad Ibrahim

Independent Director

Dato' Muhammad Ibrahim was appointed to the PETRONAS Board in April 2010. He is currently the Deputy Governor of Bank Negara Malaysia. His areas of expertise include finance, banking, supervision and regulation, strategic planning, insurance and financial markets. He is a trustee of the Tun Ismail Ali Chair Council, a former commissioner of the Securities Commission of Malaysia, Senior Associate of the Institute of Bankers Malaysia and a board member of the Retirement Fund Incorporated.

Datin Yap Siew Bee

Independent Director
Chairman of the PETRONAS Remuneration Committee

Datin Yap Siew Bee was appointed to the PETRONAS Board in April 2010. She is currently Consultant to the firm of Mah-Kamariyah & Phillip Koh. She has advised as legal counsel on significant oil and petrochemical projects in Malaysia and has extensive oil and gas advisory experience including negotiation of international oil and gas ventures on behalf of PETRONAS. Her areas of expertise include mergers and acquisitions, corporate finance, corporate restructurings and commercial ventures.

Dato' Mohamad Idris Mansor

Independent Director

Dato' Mohamad Idris Mansor was appointed to the PETRONAS Board in April 2010. He has extensive experience in the oil and gas industry, having held various senior management positions within the Group including as Senior Vice President. He was also the International Business Advisor to PTT Exploration and Production Company of Thailand prior to his current appointment.

Mohd Omar Mustapha

Independent Director

Mohd Omar Mustapha was appointed to the PETRONAS Board in September 2009. He is the Managing Partner of Ethos & Company, a boutique management consulting firm and General Partner of Ethos Capital, a leading Malaysian-based regional private equity fund. He is a member of the Economic Council chaired by the Prime Minister, an independent director of Symphony House Berhad, a 2008 Eisenhower Fellow and a 2007 Young Global Leader of the World Economic Forum in Davos.

Datuk Wan Zulkiflee Wan Ariffin

Executive Director

Datuk Wan Zulkiflee bin Wan Ariffin, is a member of the PETRONAS Board, the Executive Committee and the Management Committee. He is currently the Executive Vice President of Downstream Business and serves on various Boards of several companies in the PETRONAS Group. He is the Industry Advisor to the Engineering Faculty, University Putra Malaysia and Chairman of Malaysian Egyptian Business Council.

Datuk Anuar Ahmad

Executive Director

Datuk Anuar Ahmad is a member of the PETRONAS Board, Executive Committee and Management Committee. He is currently the Executive Vice President of Gas Business. Prior to this appointment, he served as Vice President of Human Resource Management Division and, earlier, as Vice President of Oil Business. He also sits on the Board of several companies within the PETRONAS Group.

Dato' Wee Yiaw Hin

Executive Director

Dato' Wee Yiaw Hin was appointed to the PETRONAS Board in April 2010. He is a member of the Executive Committee and Management Committee. He is currently the Executive Vice President of Exploration & Production Business. Previously, he was Vice President of Talisman, Malaysia. Prior to joining Talisman in 2009, he held various senior management positions in Shell Malaysia since 1988.

Datuk George Ratilal

Executive Director

Datuk George Ratilal is a member of the PETRONAS Board, Executive Committee and Management Committee. He is currently the Executive Vice President of Finance. He also sits on the board of several subsidiaries of PETRONAS. His areas of expertise include corporate finance, mergers and acquisitions, and the capital markets.

Dato' Mohammed Azhar Osman Khairuddin

Company Secretary

Dato' Mohammed Azhar Osman Khairuddin is the Company Secretary of PETRONAS since 1 April 2000. He joined PETRONAS in 1979 as a Legal Officer and currently holds the position of Vice President, Legal. He is a member of PETRONAS Management Committee and serves on the Board of Directors of several companies within the PETRONAS Group.

Faridah Haris Hamid

Joint Company Secretary

Faridah Haris Hamid is the General Manager of Finance & Corporate Secretariat, Legal Division. She spent 10 years in the banking sector before joining PETRONAS in 1992. She is the Joint Secretary to the Board of Directors, Secretary to the Executive Committee of PETRONAS and Secretary to the Management Committee of PETRONAS.

Executive Committee

Dato' Shamsul Azhar Abbas
President & CEO

Datuk Wan Zulkiflee Wan Ariffin
Executive Vice President
Downstream

Datuk Anuar Ahmad
Executive Vice President
Gas

Dato' Wee Yiaw Hin
Executive Vice President
Exploration & Production

Datuk George Ratilal
Executive Vice President
Finance

Management Committee

Dato' Shamsul Azhar Abbas
President & CEO

Datuk Wan Zulkiflee Wan Ariffin
Executive Vice President
Downstream

Datuk Anuar Ahmad
Executive Vice President
Gas

Dato' Wee Yiaw Hin
Executive Vice President
Exploration & Production

Datuk George Ratilal
Executive Vice President
Finance

Ramlan Abdul Malek
Vice President
Petroleum Management

Colin Wong Hee Huing
Vice President
Technology & Engineering

Datuk Nasarudin Md Idris
President & CEO
MISC Berhad

Juniwati Rahmat Hussin
Vice President
Human Resource Management

Md Arif Mahmood
Vice President
Corporate Strategic Planning

Dato' Mohammed Azhar Osman Khairuddin
Vice President
Legal

Mohammad Medan Abdullah
Senior General Manager
Corporate Services

Faridah Haris Hamid
Secretary

Hazleena Hamzah
Joint Secretary

President & CEO and Acting Chairman's Message

On behalf of the Board of Directors, I am pleased to present the Annual Report of Petroliam Nasional Berhad (PETRONAS) for the financial year ended 31 March 2010.

Dato' Shamsul Azhar Abbas

The year under review was truly challenging for PETRONAS as economies continued to bear the brunt of the world-wide recession. Though the economic climate showed green shoots of recovery in the latter part of the financial year, world Gross Domestic Product (GDP) contracted by 0.6%. This fragmented and spasmodic economic resuscitation gave little relief to value destruction resulting from the systemic collapse of financial systems and economies at large.

The slower pace of economic activity resulted in lower demand for energy, which contracted for the first time in nearly three decades. World oil demand retreated for the second consecutive year to 84.4 million barrels per day, despite positive contributions from pockets of demand growth in key emerging economies. Meanwhile, world production capacity climbed further to 89.4 million barrels per day, following the completion and coming onstream of major developments in key OPEC countries, as well as higher output from non-OPEC producers.

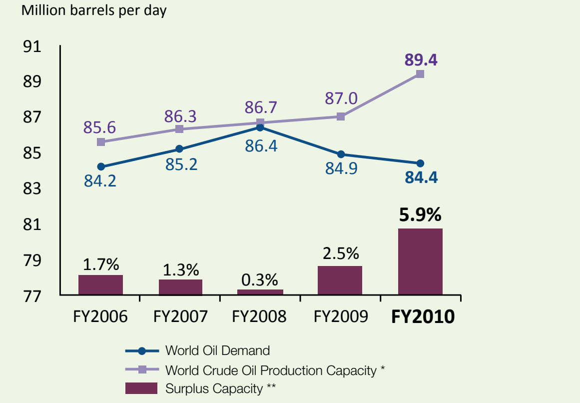
These developments combined to push crude oil production capacity to levels substantially above recent historical highs, which led to declines in oil price. Efforts by OPEC to stabilise the market by cutting approximately 4.2 million barrels of production per day succeeded in preventing even further price deterioration.

For the year under review, the average benchmark crude West Texas Intermediate (WTI) eased 20% to USD70.59 while that of Malaysian Crude Oil (MCO) declined in tandem to USD72.69.

Weaker oil prices were also similarly mirrored in the price declines of other energy commodities, including natural gas and liquefied natural gas (LNG), as well as those of petrochemical products, as significant surplus capacities had also developed all along the oil and gas value-chain.

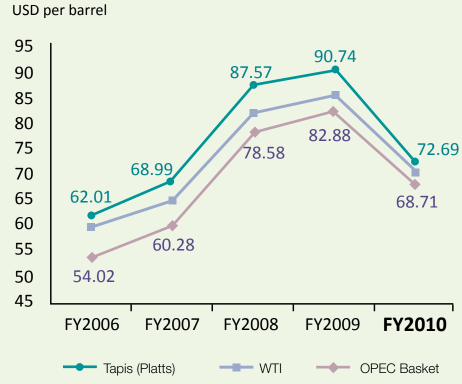
Against this challenging backdrop, PETRONAS continued to perform reasonably well. The Group recorded

Crude Oil Production



* includes non-OPEC production, OPEC crude oil production capacity and OPEC natural gas liquids
** as a percentage of demand

Crude Oil Prices



Source: EIA

Financial Highlights

- Revenue from international operations remained the largest contributor to the Group's revenue, at RM98.1 billion or 45.3% of total revenue.
- Profit before taxation declined by 24.5% to RM67.3 billion, as a result of lower revenue and partially offset by lower production and operations costs.
- Total assets increased by 5.4% to RM410.9 billion and shareholder's funds by 4.7% to RM242.9 billion.
- Return on Total Assets and Return on Average Capital Employed remained at par with established players in the industry, at 16.4% and 25% respectively.

revenues of RM216.4 billion, a decrease of 18% from the previous year, primarily due to lower sales prices, despite positive contributions from higher volumes sold.

The Group's profit before tax amounted to RM67.3 billion, a decline of 24.5% as compared to the RM89.1 billion achieved in the previous year. In this respect, the Group performed better than most oil and gas majors which recorded an average pre-tax profit decline of 35%, though slightly below the average decline of 22% experienced by most national oil companies.

Nevertheless, the Group's balance sheet continued to strengthen with total assets growing by 5.4% to RM410.9 billion from RM389.8 billion previously, while shareholder's funds grew to RM242.9 billion, an increase of 4.7% from RM232.1 billion previously. Return on Total Assets declined to 16.4% compared to 23% in the previous year, while Return on Average Capital Employed (ROACE) remained strong at 31.1%.

Capital expenditure eased by 15.7% to RM37.1 billion during the period. As in previous years, a major share of this was spent in Malaysia, representing 72% of the Group's total capital expenditure. A total of RM26.4 billion or 71% of this year's Group capital expenditure was allocated to the Exploration and Production (E&P) business. Some 69% of this allocation was in turn spent in Malaysia, reflecting ongoing exploration efforts aimed at expanding the nation's hydrocarbons resource base, as well as sustaining current and future gas production.

The Group's strategy of integration, value creation and globalisation has allowed it to cushion the negative impact of the downturn. The Group's international operations continued to be the largest contributor to Group revenue for the third year running. International revenue stood at RM98.1 billion, representing 45.3% of total revenue. Meanwhile, revenue from exports declined by 22.9% to RM75.7 billion, mainly due to lower revenue from LNG, crude oil and condensates exports, which represents 13% of Malaysia's total exports in the same period. Revenue from the domestic market constituted 19.7% of Group revenue, amounting to RM42.6 billion.

The results were achieved due to concerted efforts within the Group to control operational costs, whilst optimising resources. We continue to forge strategic alliances and collaborations to explore new business prospects which are aligned with our core oil and gas operations.

In achieving the results, our E&P Business continues to anchor the Group's performance. Despite the current challenges faced by the industry, PETRONAS continues to proactively manage its asset portfolios to ensure the long term sustainability and growth of its upstream business.

Moving forward, the Group will be placing relatively greater focus on our domestic acreages. As one of the primary development drivers of the upstream sector in Malaysia, we have built a strong infrastructural base to support our domestic operations as well as a pool of capable oil and gas professionals who will drive this segment. These will be aided by the latest technological breakthroughs in reservoir management and Enhanced Oil Recovery (EOR). Collectively, we hope to increase production and achieve higher extraction levels from our domestic acreages.

Internationally, our investment focus will move from green field projects to acquiring discovered reserves that are expected to result in better returns and exact a lower risk premium from the Group. In light of persistently high upstream costs, the Group will continue to institute strong measures to rein in costs and optimise resources while improving our existing project management track record. This is expected to realise savings and improve the Group's bottom-line in the long term.

Our Gas Business continues to be a critical revenue earner for the Group. PETRONAS will continue to leverage on its excellent track record in LNG operations and delivery, which differentiates us from others amidst a highly competitive environment within the LNG industry today. We will also continue to place high emphasis on operational excellence at our gas processing and transmission installations to sustain our edge in this playing field.

Building on our existing coal bed methane investments, the Group will leverage on acquired technological know-how to expand our investments in unconventional gas opportunities around the world. This is part of our larger effort to enhance our capability in all aspects of the gas industry.

Given the heightened concerns on the impact of carbon emissions to the environment, the use of gas as a viable, cleaner alternative and a bridge to a low carbon future is expected to bring positive impact to the Group, moving forward.

Our Downstream Business remains our key vehicle in adding value to our oil and gas resources. Emerging economies will continue to be the epicentre for growth in downstream activities. Closer to home, we continue to explore new means to further value-add to our products, through cutting edge research and fast adoption of new technologies, including novel marketing approaches to satisfy the needs of the consumer.

We continue to offer a balanced portfolio of products, covering commodities as well as specialist chemicals and polymers, while forging strong linkages with customers to tailor our products to specific industrial needs. The Group is gradually shifting towards creating more products which are able to gain the acceptance of increasingly environmentally-conscious consumers around the world.

Whilst we remain focused on the commercial aspects of the business, the recent turn of events in the Gulf of Mexico reinforces our belief that Health, Safety and Environment (HSE) must continue to be given the highest priority and ensure that it remains embedded in our organisation's DNA. The incident has set new standards and placed greater demands on the industry at large, including PETRONAS, to be even more vigilant in the implementation of HSE practices throughout our global operations. We have worked hard consistently and will continue to do so to sustain our very high standards of HSE, evident by our excellent track records.

Corporate sustainability is also an integral element of the Group's business practices

Operational Highlights

- Attained a total production of 1.75 million boe per day, amid a higher contribution from international acreages, which accounted for 639.6 thousand boe per day or 36.5% of the Group's total production.

- Higher LNG sales volume of 26.1 million tonnes, with 22.8 million tonnes contributed by the PETRONAS LNG Complex and 1.9 million tonnes contributed by Egyptian LNG, while an additional 1.4 million tonnes were from trading activities.

- Produced 9.7 million tonnes of petrochemical products, a 5% increase from the 9.2 million tonnes produced in the previous year, resulting from the first full-year operation of our Mega Methanol plant as well as improved operational performance.

and as part of our day-to-day work culture. This is critical, given the risks and hazards our people are exposed to in the line of duty. Increasing efforts are being driven to mitigate the impact of our activities on the environment. Furthermore, the interrelated nature of businesses, the environment and the community calls for us to be mindful that we function in a sustainable and holistic manner.

In the year under review, PETRONAS' wholly-owned E&P subsidiary, PETRONAS Carigali Sdn Bhd, recorded its lowest Total Reportable Case Frequency (TRCF) since its establishment at 0.48 and the second lowest amongst members of the International Association of Oil and Gas Producers. We also embarked on the inventorisation of the Group's greenhouse gas emissions from our operations to allow us to better manage and reduce our operational carbon footprint in the future.

As the world economy battles to regain a firmer footing, the prospects for the global oil and gas industry is expected to gradually improve over the long term, in tandem with increasing energy demand to fuel industrial activities and consumption. Given that economic cycles have become shorter and highly volatile in recent decades, there is good reason for cautious optimism and prudent risk management.

As we move beyond the turmoil of the past two years, PETRONAS continues to renew its organisation to deal with the changing realities of the global economy and the oil and gas industry. In dealing with these new uncertainties, the Group embarked on a Corporate Enhancement programme to better enable it to emerge as a dynamic and agile player, and a preferred business partner.

The Corporate Enhancement programme will allow PETRONAS to institute better corporate governance and greater transparency practices that are expected by our constituents and stakeholders. This wave of change will also intensify the streamlining of our operations to support our core oil and gas businesses, to further increase efficiency, free up resources to build our business and realise better returns from our investments. Overall, the Corporate Enhancement will place PETRONAS in good stead to ensure long term sustainability.

Closer to the ground, we are developing improved project execution capabilities and innovative solutions to deliver technically challenging and complex projects. New approaches are being institutionalised in business development to meet with today's challenges.

Our entry into the Iraqi upstream sector, for instance, presents our foray into working as a service contractor under terms which are governed by time and cost parameters. This new value proposition vastly differs from the conventional business we have been more accustomed to. This requires our people to exhibit greater cost disciplines as well as project management and operational excellence.

Another push for innovation will be demonstrated in the capability enhancement in EOR techniques and technology to increase recovery rates especially from existing fields, and pursuing new plays in the form of High Pressure High Temperature (HPHT) wells, including basement oil finds.

In driving this change, we continue to rely on the nimbleness, strength and resilience of our people. Inspired by our Shared Values of Loyalty, Integrity, Professionalism and Cohesiveness, the staff of PETRONAS has selflessly built, nurtured and grown our business around the world. We hope to continue to draw upon their experience and ingenuity, as we embark on the next phase of PETRONAS' journey towards Global Championship.

Our achievements today would not have been possible without the foresight and commitment of our past leaders who have steered PETRONAS through its major milestones of growth to emerge as a fully-integrated oil and gas company. I would like to take this opportunity to pay tribute to my predecessor Tan Sri Mohd Hassan Marican, who has helmed this Corporation for nearly two decades, where PETRONAS has grown substantially in both size and international presence. His contributions and legacy will remain an important chapter in PETRONAS' history.

At the same time, the Group owes an immense debt to the late Tun Azizan Zainul Abidin, who was PETRONAS' chairman until his passing in 2004. Tun Azizan's visionary leadership was pivotal in this Group's transformation from a dominant domestic player into a dynamic multinational corporation.

Importantly, it is only fitting for me to convey my sincere thanks to all members of the PETRONAS family throughout the world for their invaluable contribution to the continued growth and progress achieved by PETRONAS throughout the year. I would also like to put on record my deepest gratitude to the Government of Malaysia, the governments of our host nations and the various local communities playing host to our operations, for their continued support in all our efforts. My sincere thanks also go to our business partners for their understanding and cooperation, the Board of Directors for their continued guidance and wisdom in steering the Group, and the rest of our clients, customers and stakeholders for their significant contribution to our continued success. I hope to continue to count on your support and goodwill, as the Group navigates into the challenging waters of the future.

DATO' SHAMSUL AZHAR ABBAS
President & CEO and Acting Chairman

Corporate Governance Statement

Compliance with the Best Practices in Corporate Governance

PETRONAS believes that good corporate governance principles and best practices are essential to sound business performance. Recognising this, PETRONAS has adhered to the highest standards in governance throughout its corporate history. Today the Company's governance framework reflects recent evolution of corporate governance practices that have moved away from mere compliance.

Board Governance Framework

The Board governance framework broadly encompasses the Board structure and composition with the principal intention of enhancing the current Board's processes and practices for an effective governance of the Company.

For the period up to 2010 Annual General Meeting (AGM), the Board was made up of the Acting Chairman and President & Chief Executive Officer (CEO), five Executive Directors including the CEO and seven Non-Executive Directors. A list of the current Directors, with their biographies, is detailed out on pages 18 to 19.

The Board meets 14 times a year and has a formal schedule of matters. These include the consideration of long term strategy, plan and budget, monitoring of management performance and the Company's performance review, financial reporting and assurance. Items that are of material risks to PETRONAS are identified and systems for risk management and control are put in place to mitigate such risks.

On 28 April 2010, the Board had approved the formation of two Board Committees, i.e. the Nomination/Corporate Governance Committee and the Remuneration Committee, to assist the Board in discharging its duties and to enable the Board members to focus on the more strategic and critical issues.

In promoting an optimum Board governance framework, the Company's Board was restructured to ensure clarity of roles and responsibilities as between the Board and Management headed by the President & CEO.

Accordingly, the Board had agreed to the establishment of the Executive Committee (EXCO) to assist the President & CEO in the management of the business and affairs of the Company. Further details are set out at pages 10 to 11, particularly in relation to strategic business development, high impact and high value investments and cross-business issues within the Group. The EXCO also serves as a structured succession platform for the President & CEO of the Company.

Role Of Directors

Currently, the position of the Chairman is vacant and the President & CEO is assuming the responsibility in the interim until such time as the shareholder makes an official appointment.

The Chairman's role is to provide leadership to the Board, facilitate the meeting process and ensure that the Board and its Committees function effectively. Apart from being tasked with setting the agenda for the Board in consultation with the CEO and with the support of the Company Secretary, the Chairman also ensures that systems are in place to provide directors with accurate, timely and clear information concerning the overall Group's business operations and financial results.

The President & CEO bears the responsibility for providing leadership to the Management and direction for the implementation of the strategies and business plan as approved by the Board and the overall management of the business operations Group-wide. In this respect, the President & CEO is supported by the EXCO and Management Committee which he chairs.

Non-Executive Directors

In the past, Non-Executive Directors were Government nominees from the Ministry of Finance, Implementation Coordination Unit, the Economic Planning Unit and an external legal representative.

With the Company's strong and continued demonstration of its global business presence and in response to the global business and competitive environment and geopolitical challenges, the Board composition has been reconstituted to enable a good mix of experience, skills and qualification amongst Board members. The Non-Executive Directors are expected to bring independent judgement on issues of strategy, performance and risks as well as international business experience to PETRONAS through their contribution at Board meetings and Board Committee meetings.

The Non-Executive Directors are appointed subject to the provision of the Company's Articles of Association relating to the appointment and re-appointment at the Annual General Meeting.

All the Non-Executive Directors are considered by the Board to be wholly independent.

Board Committees

There are three Board Committees made up primarily of Non-Executive Directors, namely the Audit Committee, the Nomination/Corporate Governance Committee and the Remuneration Committee.

Board Audit Committee

The PETRONAS Board Audit Committee was established in 1985 to assist the Board in fulfilling its oversight functions in relation to internal controls, risk management and financial reporting of the Company. The Committee provides the Board with the assurance of the quality and reliability of the financial information issued by the Company whilst ensuring the integrity of the Company's assets. The Terms of Reference of the Board Audit Committee were recently reviewed and enhanced in accordance with updated regulatory requirements, sound governance and best practices.

Membership of the Board Audit Committee comprise wholly of Non-Executive Directors. The members are En Krishnan CK Menon (Chairman of the Committee with effect from 28 April 2010), Dato' Mohamad Idris Mansor, Dato' Muhammad Ibrahim and Tan Sri Dr Wan Abdul Aziz Wan Abdullah.

Nomination/Corporate Governance Committee

The Nomination/Corporate Governance Committee was established to assess the performance of the Board and is responsible for identifying, nominating and orientating new directors. The delegation of this responsibility to the Committee helps ensure that the Board recruitment matters are discussed in depth, allowing the Board to instead focus on its strategic and oversight functions. The Committee also reviews and recommends to the Board appropriate corporate governance policies and procedures in ensuring compliance with good governance standards.

The members of the Nomination/Corporate Governance Committee are Tan Sri Dato' Seri Hj Megat Najmuddin Datuk Seri Dr Hj Megat Khas (Chairman of the Committee with effect from 28 April 2010), Dato' Muhammad Ibrahim and En Krishnan CK Menon.

Remuneration Committee

The Remuneration Committee was established to assist the Board in discharging its responsibilities in the determination of the remuneration/compensation of Executive Directors and certain Senior Management's compensation. The Committee determines and agrees with the Board the remuneration policy for the President & CEO and Executive Directors and within the terms of this policy, determines the individual remuneration package for the CEO and the Executive Directors. It also considers the remuneration of certain senior management staff and makes recommendations.

The members of the Remuneration Committee are Datin Yap Siew Bee (Chairman of the Committee with effect from 28 April 2010), En Mohd Omar Mustapha and Datuk Anuar Ahmad.

Statement of Internal Control

The Board is pleased to provide the following statement which outlines the nature and scope of internal control of Petroliam Nasional Berhad and its subsidiaries ("PETRONAS Group") during the year in review.

Board's Responsibilities

The Board recognises the importance of sound internal control and risk management practices to good corporate governance with the objective of safeguarding the shareholders' investment and the Group's assets. The Board affirms its overall responsibility for the Group's system of internal controls and for reviewing the adequacy and integrity of those systems including financial and operational controls, compliance with relevant laws and regulations and risk management.

The Group has in place an ongoing process for managing the significant risks affecting the achievement of its business objectives throughout the period, which includes identifying, evaluating, managing and monitoring these risks.

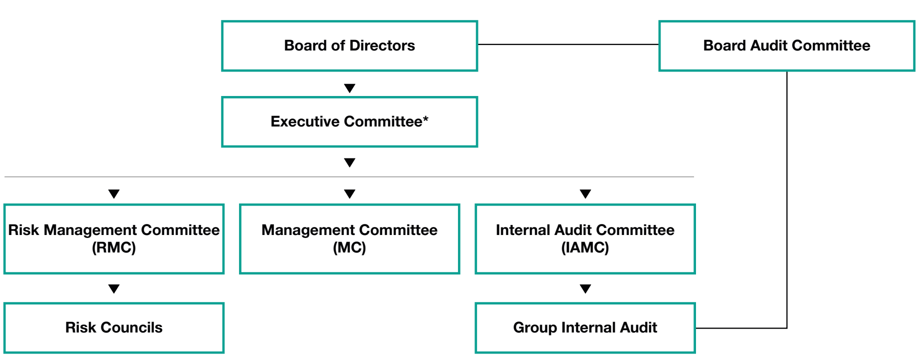
The Group's system of internal control is designed to manage and control risks appropriately, rather than eliminate the risk of failure to achieve business objectives. Because of the inherent limitations in all control systems, these internal control systems can only provide reasonable and not absolute assurance against material misstatement or loss or the occurrence of unforeseeable circumstances.

Risk Management

Having regard to the fact that managing risk is an inherent part of the Group's activities, risk management and the ongoing improvement in corresponding control structures in all significant risk areas including among others, financial, health, safety and environment, operations, geopolitics, trading and logistics, remain a key focus of the Board in building a successful and sustainable business. For this endeavour, the Group has established a Risk Management Committee which assists Management in defining, developing and recommending risk management strategies and policies for the PETRONAS Group. In addition, the Risk Management Committee also coordinates Group-wide risk management in terms of building risk management awareness and capabilities, monitoring the risk exposures and planning responses to potential major risk events.

Simultaneously, risk committee/councils were formed to manage specific risk categories and advise on issues and developments pertaining to the respective risk areas such as Credit and Trading Risk Council, Finance Risk Council and Project and Contractors Risk Council. Each committee was established with formal terms of references clearly outlining their functions and duties and appropriately empowered to provide supervision of risk management activities.

A risk management structure has been established to monitor, assess and review risks as below:



** Established in May 2010*

Group risks are being managed on an integrated basis and their evaluation is incorporated into the Group decision-making process such as the strategic planning and project feasibility studies. A separate risk management function also exists within the Group's listed subsidiaries with the establishment of Risk Management Committees within the respective companies to assess and evaluate the risk management process of the respective companies on a periodic basis.

Internal Audit Function

The Board recognises that the internal audit function is an integral component of the governance process. One of the key functions of PETRONAS' Group Internal Audit (GIA) is to assist the Group in accomplishing its goals by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the Group. GIA maintains its impartiality, proficiency and due professional care by having its plans and reports directly under the purview of the Board Audit Committee (BAC).

The internal audit function performs independent audits in diverse areas within the Group including management, accounting, financial and operational activities, in accordance with the annual internal audit plan which was presented to the BAC for approval.

The BAC receives and reviews reports on all internal audits performed including the Agreed Corrective Actions to be carried out by the Management. GIA monitors the status of Agreed Corrective Actions through the Quarterly Audit Status Report in which they are recorded and assessed. The consolidated reports are submitted and presented to the BAC for deliberations.

GIA adopts the principles of the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing.

Other Elements of Internal Control

The other elements of the Group's system of internal control are as follows:

Organisational Structure

The internal control of the Group is supported by a formal organisation structure with delineated lines of authority, responsibility and accountability. The Board has put in place suitably qualified and experienced management personnel to head the Group's diverse operating units into delivering results and their performance are measured against approved Key Performance Indicators.

Budget Approval

Budgets are an important control mechanism used by the Group to ensure an efficient allocation of Group resources and that the operational managers are sufficiently guided in making business decisions. The Group performs a comprehensive annual planning and budgeting exercise including the development and validation of business strategies for a rolling five-year period and establishment of performance indicators against which business units and subsidiary companies are evaluated.

Variances against the budget are analysed and reported to the Board on a monthly basis. The Group's strategic directions are also reviewed at reasonable intervals taking into account changes in market conditions and significant business risks.

Limits of Authority

The Limits of Authority (LOA) defines revenue and capital expenditure spending limits for each level of management within the Group. These limits cover among others, authority for payments, capital and revenue expenditure spending limits and budget approvals. The LOA manual provides a framework of authority and accountability within the organisation and facilitates decision making at the appropriate level in the organisation's hierarchy.

Procurement

The Group has a clearly defined authorisation procedures and authority limits set for awarding tenders and all procurement transactions covering both capital and revenue expenditure. Tender committees with cross functional representation have been established to provide the oversight functions on tendering matters prior to approval by the Approving Authorities as set out in the Limits of Authority approved by the Board.

Financial Control Framework

Amongst the key initiatives carried out by the Company during the year is the development and implementation of a Financial Control Framework (FCF). The principal objective of FCF is to enhance the quality of the Company's financial reports through a structured process of ensuring the adequacy and effectiveness of key internal controls operating at various levels within the Company at all times. FCF requires among others, documentation of key controls, remediation of control gaps as well as a regular conduct of testing of control operating effectiveness.

On a semi-annual basis, each key process owner at various management levels is required to complete and submit a Letter of Assurance which provides confirmation of compliance to key controls for the areas of the business for which they are accountable. FCF will be implemented throughout the Group within the next 12 months.

Corporate Financial Policy

The Group has developed a Corporate Financial Policy and Guidelines for adoption and implementation by companies across the Group. The Corporate Financial Policy and Guidelines govern financial risk management practices across the Group. It prescribes a consistent framework in which financial risk exposures of entities within the Group are identified and strategies developed to mitigate financial risks.

Group Health, Safety and Environment

The Group Health, Safety and Environment (GHSE) Division drives various HSE sustainable initiatives and defines the framework that exemplifies GHSE's effort to continuously meet legal compliance as a minimum. GHSE also drives strategies and monitors performance to ensure HSE risks are managed as reasonably practicable.

Crisis Management

The Group Contingency Planning Standard (GCPS) is designed to provide outlines for responding to any major emergency or crisis by defining the framework and delineation of roles and responsibilities which enable support and assistance where required. The Group has implemented a three-tier response system which provides a clear demarcation of roles and responsibilities between emergency site management, operating unit management, corporate and authorities. In the event of major emergency or crisis, the response system will be activated and the Group's priority is the protection of people, environment, asset and reputation.

Business Continuity Plan

The Group has developed Business Continuity Plans for both plant and non-plant operations. These plans are continually updated and tested based on identified risks to enhance the Group's preparedness in managing the impact of crisis. The main objective is to minimise impact, avoid disruption as well as recover and restore the Group's critical functions within a short period of time towards sustaining the Group's operational survival thus protecting businesses, partners and customers during crisis or disaster.

Employees

Senior Management sets the tone for an effective control culture in the organisation through the Group's Shared Values, developed to focus on the importance of these four key values – Loyalty, Integrity, Professionalism and Cohesiveness. The importance of the Shared Values is manifested in the Corporation's Code of Conduct for Officers and Staff which is issued to all staff upon joining. Employees are required to strictly adhere to the Code in performing their duties.

Employees undergo structured training and development programmes and potential entrants or candidates are subject to a stringent recruitment process. A performance management system is in place, with established key performance indicators (KPIs) to measure employee performance and the performance review is conducted on a semi-annual basis. Action plans to address employee developmental requirements are timely prepared and implemented. This will enable employees to deliver their KPIs so that the Group can meet its future management requirements.

Conclusion

The Board is of the view that the system of internal control instituted throughout the Group is sound and provides a level of confidence on which the Board relies for assurance. In the year under review, there is no significant control failure or weakness that would result in any material losses, contingencies or uncertainties that would require separate disclosure in the Annual Report.

The Board provides for a continuous review of the internal control system of the Group to ensure ongoing adequacy and effectiveness of the system of internal control and risk management practices to meet the changing and challenging operating environment.

This statement is made in accordance with the resolution of the Board of Directors dated 30 July 2010.

resourcefulness

Energy is the life-blood that sustains our modern civilisation. In a span of just 25 years, a more prosperous and populous world will require half as much more energy as it does today. The world's endowment of oil and gas resources can support this substantial demand increase, but with discoveries increasingly being made at greater geographical distances from the market and in geologically more complex formations, the resourcefulness and ingenuity of the industry's best minds in searching for the right technology solutions will be crucial for these harder-to-access resources to be extracted in a safe, reliable and affordable manner - and with minimal impact to the environment.

This challenge is equally true in Malaysia, where national oil and gas production increasingly relies on efforts to explore and produce both in deeper waters, as well as from deeper reservoirs. As the custodian of the nation's oil and gas resources, PETRONAS recognises that diligence and resourcefulness in seeking the right technologies, talents as well as partners, are crucial elements in ensuring this natural wealth continues to be sustainably developed for the long-term benefit of the nation.

Exploration & Production Business

Highlights

27.12 billion

Strong Group total reserves of 27.12 billion barrels of oil equivalent (boe) amid strong contribution of 24.2% from international reserves.

1.1x

Reserves Replacement Ratio (RRR) of 1.1 times for the Group.

1.75 million

Attained a total production of 1.75 million boe per day, amid higher contribution from international production of 639.6 thousand boe per day, equivalent to 36.5% of the Group's total production.

4 new PSCs in Malaysia

Awarded four new Production Sharing Contracts (PSCs) in Malaysia, which included the involvement of a new player, MDC Oil & Gas (SK320) Ltd, a subsidiary of Abu Dhabi's Mubadala Development Company.

17 new petroleum contracts overseas

Secured 17 new petroleum contracts overseas, including four Development and Production service contracts in Iraq.

Overview

PETRONAS' Exploration and Production (E&P) Business is focused on enhancing the value of and increasing oil and gas reserves by promoting and undertaking exploration, development and production of oil and natural gas activities within Malaysia and overseas.

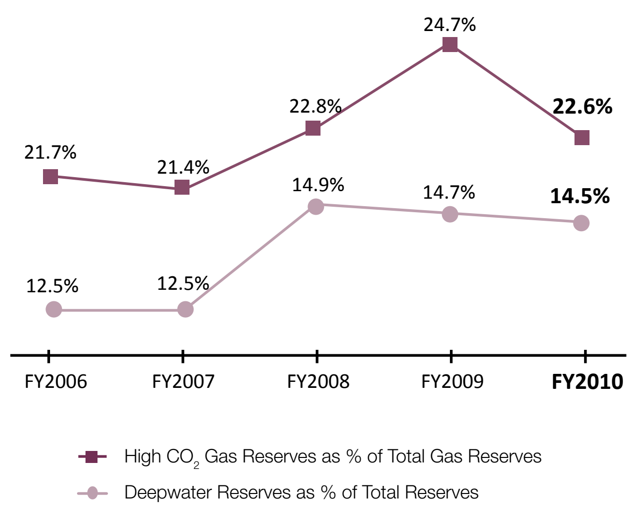
In Malaysia, the PETRONAS Group has a proven track record in sustaining the nation's oil and gas reserves. In addition to maximising upstream value and increasing the prospectivity of Malaysia's acreages, PETRONAS carries out its upstream activities successfully in Malaysia through PSCs with a number of international oil and gas companies and its wholly-owned E&P subsidiary, PETRONAS Carigali Sdn Bhd (PETRONAS Carigali).

PETRONAS continues to harness and build new technologies to maximise opportunities and further strengthen its capabilities in aspiring to become a leader in niche technology development and application in geosciences. This is vital because, as production from existing fields continue to mature, sustaining future national production necessitates the development of Malaysia's oil and gas reserves that are located in geologically more complex, riskier and higher-costs frontier acreages. These include deepwater blocks that make up about 14.5% of domestic hydrocarbon reserves, acreages with high carbon dioxide (CO_2) that make up about 22.6% of domestic gas reserves, and exploration of deeper oil and gas play types.

PETRONAS' capability and track record of successful developments in oil and gas has earned it the operatorship of many ventures and enabled it to expand its operations overseas. As such, PETRONAS' international E&P Business continues to make significant contributions to the Group through the exploration for and acquisition of reserves, as well as through developing and monetising discovered reserves.

Taking its Malaysian and international performance together, the Group continues to demonstrate strong performance in the upstream sector.

Geological Complexity of Malaysia's Reserves



Malaysia's Exploration & Production

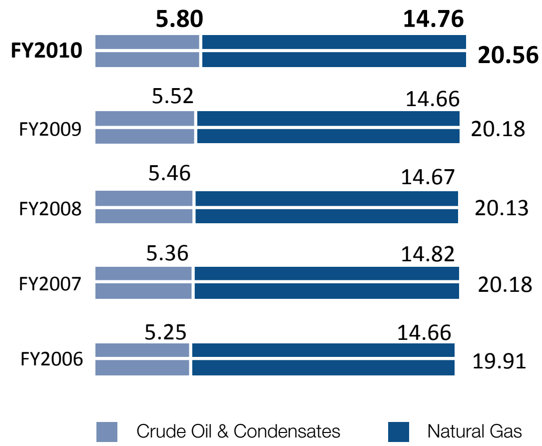
Malaysia is central to PETRONAS in terms of petroleum reserves and production activities. As at 1 January 2010, Malaysia's total reserves increased by 1.9% to 20.56 billion boe mainly due to upward revision of oil reserves in existing fields, through Enhanced Oil Recovery (EOR) projects at the Dulang and Samarang fields, as well as additions from new discoveries from Siakap North, Kawang and Tukau Timur fields. Crude oil and condensates reserves increased by 5.1% to 5.80 billion boe, while natural gas reserves increased marginally to 14.76 billion boe from 14.66 billion boe.

Malaysia's total average production decreased by 1.7% to 1.63 million boe per day, reflecting the expected depletion of the mature fields. Production of crude oil and condensates amounted to an average of 657.2 thousand barrels per day while gas production averaged at 5.8 billion cubic feet per day (equivalent to 974.0 thousand boe per day).

PETRONAS' share of Malaysia's production for the year, inclusive of PETRONAS Carigali's domestic production, amounted to 1.1 million boe per day or 68.2% of total average national production, a decrease from the previous year's share of 70.4%. This reflected lower production entitlements due to higher cost recovery by Product Sharing Contractors amid lower average oil prices for the year in review.

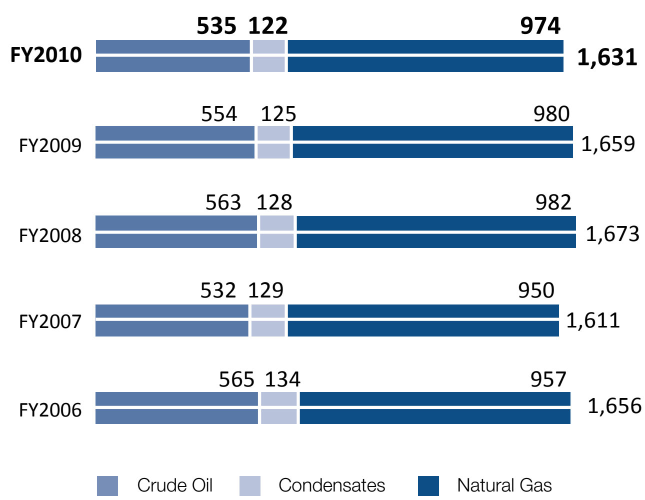
Malaysia's Oil and Gas Reserves

As at 1 January in billion boe



Malaysia's Average Production

In '000 boe per day



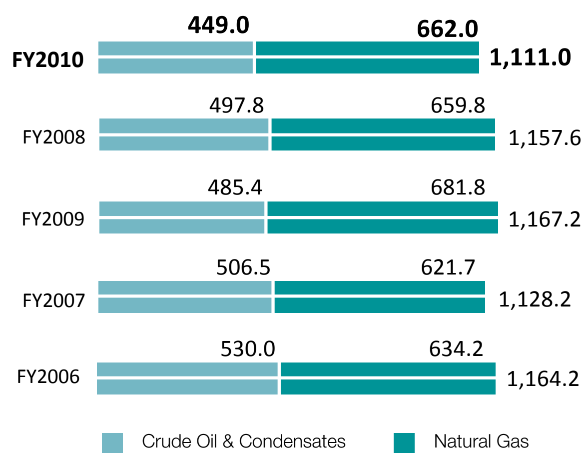
Malaysia continues to attract a significant level of interest among foreign companies to bid for and operate blocks in Malaysia. Four new PSCs were awarded during the financial year 2010, namely 2008 PSC offshore Peninsular Malaysia, Block SK320 PSC offshore Sarawak, and Block SB309 and Block SB310 PSC offshore Sabah, bringing the total number of PSCs in operation to 72. A new player in Malaysia, MDC Oil & Gas (SK320) Ltd, a subsidiary of Abu Dhabi's Mubadala Development Company, was awarded Block SK320 jointly with PETRONAS Carigali.

Two new gas fields were brought onstream during the year – Golok and PC4 - increasing the total number of producing fields in Malaysia to 106 (68 oil and 38 gas fields).

A total of RM28.72 billion was spent in Malaysia's upstream sector during the year. Of this, RM14.68 billion or about 50% was spent on development projects, RM10.44 billion or about 36% was spent on exploration activities, and the balance on operations.

PETRONAS' Share of Malaysia's Production

In '000 boe per day



International Exploration & Production

The Group's international E&P business continues to be strong despite a slight decline resulting from the challenging operating environment. International reserves stood at 6.56 billion boe, compared to 6.84 billion boe in the previous year. Crude oil and condensates reserves fell by 5.5% to 2.08 billion boe. Gas reserves declined by 3.4% to 4.48 billion boe.

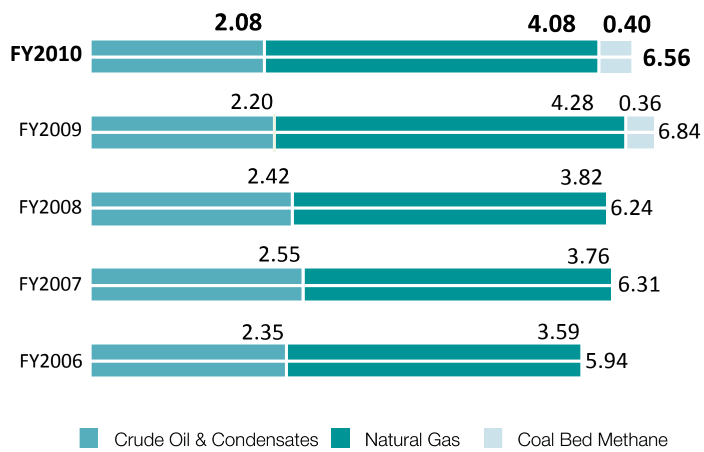
Total average production from the Group's international operations was 639.6 thousand boe per day, an increase of 1.7% from the previous year. Crude oil and condensates production decreased to 264.5 thousand boe per day from 275.9 thousand boe per day. Nevertheless, average gas sales increased by 6.2% to 375.1 thousand boe per day, mainly due to higher gas sales from Malaysia-Thailand Joint Development Area (MTJDA) and from Myanmar.

During the year under review, the Group's growth efforts were rewarded with 17 new petroleum contracts. Most notable was the success in securing four Development and Production service contracts in Iraq - Badra, Gharraf, Halfaya and Majnoon. The Group continued its venture into new frontiers by acquiring six PSCs in Greenland - Sigguk, Eqqua, Kingittoq, Saqqamiut, Uummannarsuaq and Salliit. Three deepwater blocks were also secured in Myanmar - MD4, MD5 and MD6. Other PSCs signed during the year include Egypt's North Damietta; Indonesia's West Glagah Kambuna; Mozambique's M10 and Oman's Natih. The new ventures brought the Group's total international E&P ventures to 76 in 22 countries. Of these, PETRONAS is the operator for 31 ventures, joint operator for 13 and active partner in the remaining 32 ventures.

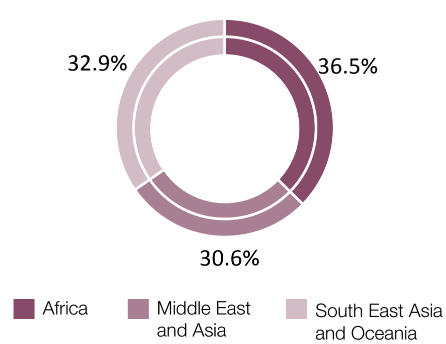
The year also saw the first production of five of the Group's international projects, namely West Delta Deep Marine (WDDM) Ph 5 and WDDM Ph 6 (Egypt), Yetagun Infill (Myanmar), fields in Block 3 & 7 Nahal Base (Sudan), and Bunga Kekwa C (Block 46 Cai Nuoc).

PETRONAS' International Oil and Gas Reserves

As at 1 January in billion boe



Breakdown of International Reserves by Region

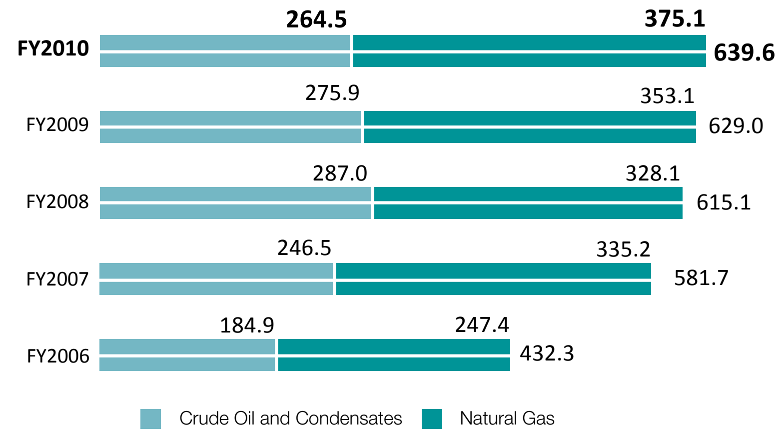


A total of RM16.5 billion was invested in the international E&P ventures, of which 60.7% was for exploration, development and production acivities, while the remaining 36.3% was for the operation and maintenance of existing assets.

Overall, the Group's total reserves stood at 27.12 billion boe, of which 24.2% was from international ventures. The Group's total average production decreased by 2.5% to 1,751.4 thousand boe per day, with production from international operations accounting for 36.5% of the combined production, reflecting the Group's growing success in the international E&P arena.

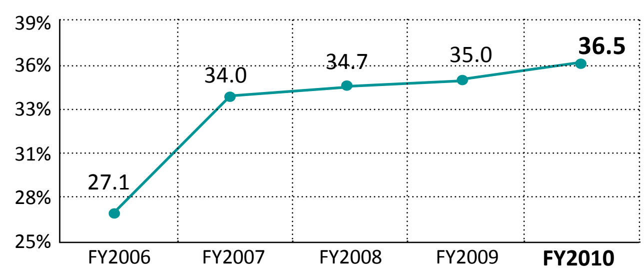
PETRONAS' International Oil and Gas Production

In '000 boe per day

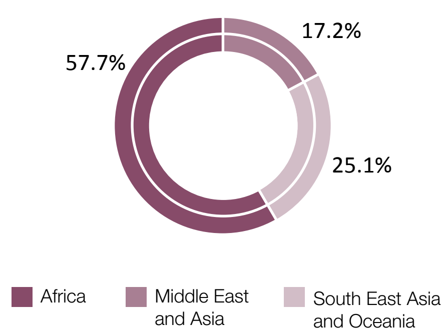


	CRUDE OIL AND CONDENSATES	NATURAL GAS	TOTAL OIL AND GAS
2010	264.5	375.1	639.6
	-4.1%	6.2%	1.7%
2009	275.9	353.1	629.0

International Production as a % of PETRONAS Group Production



Breakdown of International Production by Region



Note: South East Asia excludes Malaysian reserves

Outlook

E&P activities are expected to increase in the coming year driven by strengthening oil prices on the back of the global economic recovery. Capital expenditure (CAPEX) spending is likely to increase as IOCs and NOCs strive to sustain growth. This renewed optimism will drive efforts to accelerate development and bring on-stream first production.

However, challenges remain to be mitigated. Global discoveries continue to decline both in number and size, driving E&P activities of higher risk appetite, particularly in frontier areas and non-conventional acreages, such as deepwater, high pressure high temperature (HPHT) plays and unconventional hydrocarbon. Spots of encouraging results in these areas have sparked a growing interest among players, gradually increasing the competition to claim this nature of reserves. The challenges are heightened further with the higher costs of more complex development and production, and the continuing uptrend in costs of materials and services.

A critical recurring area re-emphasised this year is Health, Safety and Environment (HSE). Recent industry HSE events have heightened awareness on potential damage in E&P business and reputation, spurring greater attention by host authorities and the global community at large. As such, tougher HSE requirements are being enforced on companies as a license to operate and gain access to new acreages.

With the compounded industry challenges from technical and business perspectives, application of technology will play a pivotal role in the continuity to explore and develop reserves safely, efficiently and effectively, as well as to extend the life cycle of fields to advance stages of recovery.

Sustaining and thriving in this highly volatile and challenging environment, PETRONAS will be driven to focus its efforts to efficiently grow reserves and maximise production. In Malaysia, exploration activities will be intensified to include pursuing non-conventional prospects, as well as increasing oil recovery from existing fields, through its capability development focus areas like Enhance Oil Recovery (EOR) and Full Field Review (FFR). Internationally, PETRONAS will continue growing its reserves in conventional and non-conventional plays, through both exploration and acquisition of assets with resources.

To ensure business value is preserved and maximised, PETRONAS will actively rebalance its portfolio of assets in the upstream sector, whilst continuing efforts to optimise cost, monetise reserves and effectively manage all levels of its business activities, as well as continuously maintaining high standards of HSE.

Disclaimer on forward-looking statements: Forward-looking statements involve inherent risks and uncertainties. Should one or more of these or other uncertainties or risks materialise, actual results may vary materially from those estimated, anticipated or projected. Specifically, but without limitation, capital costs could increase, projects could be delayed, and anticipated improvements in capacity, performance or profit levels might not be fully realised. Although PETRONAS believes that the expectations of its management as reflected by such forward-looking statements are reasonable based on information currently available to it, no assurances can be given that such expectations will prove to have been correct. Accordingly, you are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they are made. PETRONAS undertakes no obligation to update or revise any of them, whether as a result of new information, future developments or otherwise.

robustness

The most successful oil and gas corporations are characterised by their ability to remain strong, competitive and relevant, modifying their strategic imperatives to meet the challenges of their times. By being constantly aware of market realities and planning for eventualities a few steps ahead, we are able to remain robust despite adversities in the environment. This robustness, reflected in our business and financial performance allows us to continue to return value to our stakeholders. Recognising this, PETRONAS continues to seek out potential opportunities for collaboration, alliances and partnerships, involving innovation and technology, as well as unconventional gas.

Gas Business

Highlights

99.97%

PETRONAS Gas Berhad (PGB) maintained a 99.97% reliability rate for the PGU system pipeline network, exceeding the world class standard of 99.90%.

26.1 million

Higher LNG sales volume of 26.1 million tonnes, with 22.8 million tonnes from PETRONAS LNG Complex, 1.9 million tonnes from Egyptian LNG operations and 1.4 million tonnes from trading activities.

Commissioning of Dragon LNG

Successfully commissioned the Dragon LNG regasification terminal.

1st cargo to China

Delivered its first LNG cargo to Shanghai LNG, pursuant to a 25-year sale and purchase agreement.

Overview

PETRONAS' Gas Business is focused on processing, sale and transmission of natural gas; the liquefaction, sale, transportation, regasification and trading of LNG; and other gas-related businesses. Its overseas presence include Argentina, Australia, Egypt, Indonesia, Ireland, Thailand and United Kingdom (UK). Over the years, PETRONAS has achieved the reputation of a trusted and reliable partner in the supply of natural gas domestically and internationally.

In Malaysia, PETRONAS supplies natural gas largely through the Peninsular Gas Utilisation (PGU) system, which it developed to spearhead the use of natural gas in Malaysia. The 2,505 km pipeline system delivers supplies to the power, industrial, petrochemical and other sectors throughout the Peninsular.

The natural gas transmitted through the PGU system is sourced mainly from offshore Terengganu and is first processed in six Gas Processing Plants in Kertih. PETRONAS also imports natural gas to supplement offshore Terengganu supplies.

In addition to its domestic gas transmission system in Malaysia, PETRONAS operates and has invested in gas pipeline networks in Australia, Argentina, Indonesia and Thailand.

In the LNG sector, PETRONAS' LNG Business has expanded from its traditional Far East markets into the Atlantic Basin with its involvement in Egyptian LNG and the regasificalion terminal in Milford Haven, UK. In the Far East, the business has widened its reach to include China, in addition to the traditional markets of Japan, Taiwan and South Korea.

PETRONAS has also ventured into unconventional gas with a joint venture to develop and operate a coal bed methane-to-LNG project in Gladstone, Australia.

PETRONAS is the fourth largest equity owner of LNG production capacity in the world and the PETRONAS LNG Complex in Bintulu, Sarawak remains one of the world's largest LNG production facilities in a single location with a combined capacity of about 23 million tonnes per annum.

Gas Processing & Transmission

During the review period, the Group sold an average volume of 2,546 mmscfd of gas in Malaysia, a marginal decrease of 0.7%. Of that, an average of 2,088 mmscfd was sold through the PGU system, a decrease of 2.7% due to upstream reservoir management and maintenance activities, which affected the feedgas volume processed.

The power sector continued to be the largest consumer of gas, taking up an average of 1,176 mmscfd or 56.3% of the total volume, with the Independent Power Producers (IPPs) consuming 55.4% of the gas supplied to the sector. The non-power sector, comprising industrial, petrochemical and other users, consumed an average of 787 mmscfd or 37.7% of the total volume, while the balance of 6% was exported to Singapore.

To meet the demand and to make up for the lower supply from the fields offshore Terengganu, the Group sourced 499 mmscfd of gas for the PGU system from Indonesia and Malaysia-Thailand Joint Development Area (MTJDA).

In contrast to the lower sales volume seen in Peninsular Malaysia, a higher sales volume was achieved in Sabah due to new supplies from the Kikeh Field.

The Group's gas processing and transmission arm, PETRONAS Gas Berhad (PGB), sustained world class operations standards for its gas processing plants and pipeline network, with reliability rates of 99.70% and 99.97% respectively.

AVERAGE SALES GAS DELIVERY

In mmscfd	FY2010	+/-	FY2009
Peninsular Malaysia (PGU System)	**2,088**	-2.7%	2,146
Sarawak	**262**	-3.0%	270
Sabah	**196**	33.3%	147
Total	**2,546**	-0.7%	2,563

SALE OF GAS TO PENINSULAR MALAYSIA THROUGH THE PGU SYSTEM

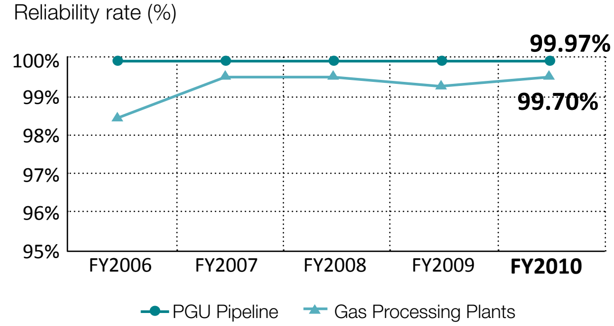
In mmscfd	FY2010	+/-	FY2009
Power Sector	**1,176 (56.3%)**	-8.1%	1,280 (59.7%)
Industrial, Petrochemical & Other Users	**787 (37.7%)**	7.5%	732 (34.1%)
Export	**125 (6.0%)**	-6.7%	134 (6.2%)
Total	**2,088 (100%)**	-2.7%	2,146 (100%)

PGU SYSTEM SUPPLY SOURCES

In mmscfd	FY2010	+/-	FY2009
Offshore Peninsular Malaysia	**1,589**	-2.8%	1,635
Indonesia & MTJDA	**499**	-2.3%	511
Total	**2,088**	-2.7%	2,146

PGU Sytem Efficiency : World Class Performance

Reliability rate (%)



Liquefied Natural Gas

The Group's total LNG production increased to 24.7 million tonnes from 24.1 million tonnes previously mainly as a result of higher volume from both the PETRONAS LNG Complex and Egyptian LNG operations.

About 56% of production from Bintulu amounting to 12.7 million tonnes was exported to Japan, about 24% or 5.6 million tonnes sold to South Korea, 13% or 2.9 million tonnes to Taiwan, and 3% or 0.7 million tonnes to China, mostly under long-term contracts. Despite lower overall LNG demand, PETRONAS improved its market share in Japan and South Korea relative to the previous financial year.

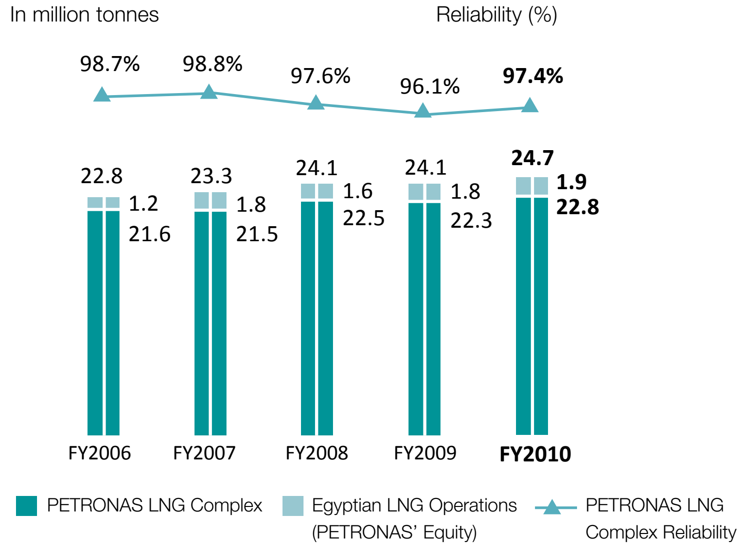
PETRONAS also successfully delivered its first LNG cargo to Shanghai LNG Company Limited, following a 25-year sale and purchase agreement (SPA) signed in 2006. The SPA, which is PETRONAS' first long-term LNG contract with China, marks a major breakthrough for PETRONAS in China's energy sector. Total deliveries to China for the year allowed the Group to garner an 11% market share in the country.

These achievements, together with strong plant operational performance reflected in a higher reliability rate for the year of 97.4%, continue to reinforce the Group's reputation as a reliable supplier of LNG.

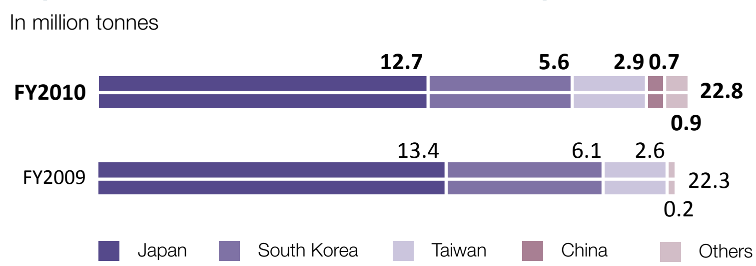
Additionally, PETRONAS continued to seek business opportunities presented by the growing LNG spot market during the year under review. An additional 1.4 million tonnes of LNG were sourced from third parties to support the Group's g!obal LNG trading activities.

Further diversifying our LNG portfolio, PETRONAS signed a Heads of Agreement (HOA) to purchase up to 3.5 million tonnes per annum (mtpa) of LNG from the integrated LNG facilities in Gladstone, Australia. The Agreement is, nevertheless, conditional only upon the Gladstone LNG project reaching a final investment decision.

Higher LNG Production



Export of LNG from PETRONAS LNG Complex



LNG Trading	FY2010	FY2009
Volume (million tonnes)	2.6	0.9
No. of Cargoes	45	14

LNG trading is inclusive of inter-company volumes (PETRONAS LNG Complex in Bintulu and Egyptian LNG operations) and third-party volumes

Other Downstream Gas Ventures

The Dragon LNG regasification terminal was successfully commissioned during the year as part of PETRONAS' effort to support its global gas and LNG aspirations. PETRONAS also successfully completed the acquisition of Marathon Petroleum Venus Limited's entire equity shareholding in Marathon Oil Ireland Limited (MOIL), an Irish upstream and gas storage company, complementing its European gas storage presence via the Star Energy Group Limited.

PETGAS Trading (UK) Limited (PETGAS) - PETRONAS' gas trading arm in the United Kingdom - achieved another milestone since commencing commercial operations with the signing of an LNG Put Option Agreement between PETGAS and Gazprom Global LNG Limited. The signing of the Agreement further strengthened the relationship between PETRONAS and Gazprom, and signified the Group's continuous effort to enhance its collaboration with the world's biggest gas supplier.

Outlook

The uneven global economic recovery will continue to have a significant impact on overall demand and supply for gas. In particular, the rate of growth in gas demand from the industrial and power sectors will very much be dependent on how fast economies rebound from the global recession.

Gas demand is projected to resume its steady growth over the next five years. Demand would resume its long-term upward trend with economic recovery, population growth and industrialisation. The power sector is expected to remain the largest driver of gas demand in all regions.

On the domestic upstream front, long term gas supply availability and sustainability remain a concern for stakeholders. As such, PETRONAS is undertaking several measures in ensuring long-term security of supply for the nation.

The temporary oversupply in the LNG market contributed by the commissioning of the Qatari mega trains and shale gas

displacement of LNG from North America, is expected to intensify competition among suppliers to secure customers in the premium Far East market in the immediate term. However, PETRONAS will continue to leverage on long term contracts with its Far Eastern customers as well as seize opportunities in the robust spot market.

Gas pricing remains non-uniformed based on geographical market dynamics, such as liquidity and regulatory factors. Gas contracts in Asia and much of Europe will continue to be oil-indexed, while North America is expected to be heavily influenced by its regional price benchmark. Due to the price differential, PETRONAS will continue to explore and optimise market arbitrage opportunities.

The recent rapid development of unconventional gas resources in the US, Canada and Australia has led to accelerated investments in these regions, particularly by leading IOCs and emerging NOCs from Asia. PETRONAS is weighing opportunities in this area.

Amidst all these opportunities and challenges, PETRONAS Gas Business will continue to strive towards operational excellence and growth, guided by PETRONAS' Corporate Vision and Agenda.

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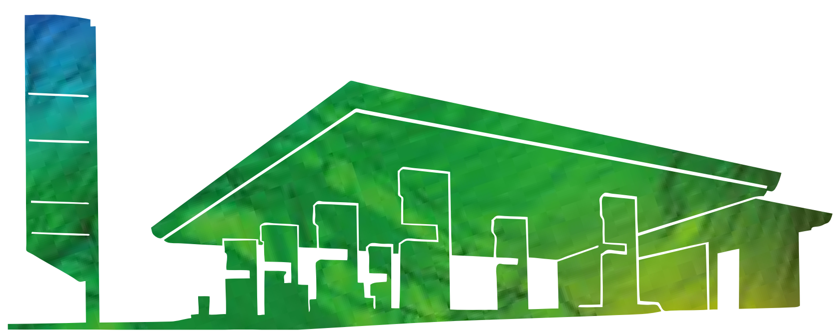
resilience

As an industry shaped by the realities of the global economic and geopolitical landscape, oil and gas players are constantly faced with challenges which can impact the fundamentals of our business. But at every turn, the resilience of our organisation and our people will allow us to recover from setbacks and continue to chart our course for the future. Our resilience allows us to weather adverse cycles and turn challenges into opportunities for growth. In order to deliver industry-leading returns and long-term shareholder value, PETRONAS continues to enhance the resilience of its downstream business, mainly through operational excellence, selective market expansion and asset acquisition, as well as by providing and producing more quality products and services.



Downstream Business

Highlights

190.3 million

Higher traded volume of crude oil and petroleum products of 190.3 million barrels, enabled through further expansions in trading portfolio.

11%

Higher petroleum product retail sales volume of 151.4 million barrels on sustained growth in both domestic and international operations, an increase of 11% despite intense market competition.

9.7 million

Higher production level of petrochemical products of 9.7 million tonnes on the back of higher plant reliability rate of 96.2%.

New & Improved product ranges

Stronger presence in key markets through more aggressive marketing as well as the introduction of new and improved product ranges - namely M-Plus, Syntium Moto and URANIA, as well as Dynamic Diesel, PRIMAX 95 and PRIMAX 97.

Partnership with Mercedes GP

Five-year partnership agreement between PETRONAS and the Mercedes GP team in Formula One, which will support international business expansion efforts, particularly the Group's lubricants business.

Overview

PETRONAS' Downstream Business continues to play a strategic role in adding value to the nation's oil and gas resources through its integrated activities of refining, trading and marketing of crude oil and petroleum products in the Malaysian and international markets, as well as through the manufacturing, marketing and trading of petrochemical products.

PETRONAS owns and operates four refineries with a total refining capacity of about 440,000 barrels a day. Its crude oil marketing and trading activities span the globe and its portfolio includes a range of significant grades from various regions.

PETRONAS operates service stations in Malaysia and other countries including Indonesia, South Africa, Sudan and Thailand. PETRONAS is the leading marketer of petroleum products in Malaysia with a total market share of 43.2%, and subsidiary Engen Ltd (Engen) is a leading marketer of petroleum products in South Africa.

PETRONAS' Mega Methanol Plant in Labuan is among the largest methanol plants in the world with a capacity of 1.7 million tonnes per year.

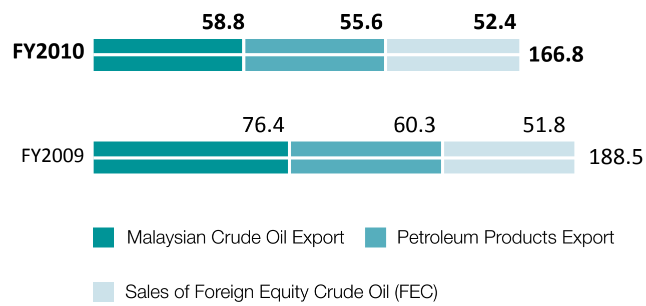
Crude Oil & Petroleum Products Marketing

The Group's crude oil and petroleum products marketing activities for the year were impacted by lower crude oil and condensates production. Total marketed crude oil and petroleum products declined 11.5% on the year to 166.8 million barrels on the back of lower volumes available for sale. Exports of Malaysian Crude Oil (MCO), in particular, declined to 58.8 million barrels. Of this, more than 80% was marketed in the Asian region with the balance exported to markets in Australia, New Zealand and the US.

Similarly, the Group exported lower volumes of petroleum products of 55.6 million barrels.

The Group's sales of Foreign Equity Crude Oil (FEC) increased by 1.2% to 52.4 million barrels, reflecting higher entitlements from the Group's international operations amid lower crude oil prices during the year.

Marketing
In million barrels

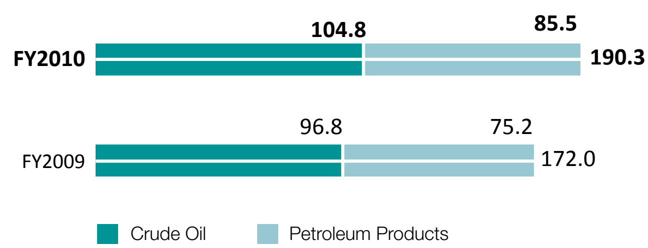


Crude Oil & Petroleum Products Trading

Lower marketing volumes were nevertheless compensated for through higher trading activities. The total volume of crude oil traded during the year increased by 8.2% to 104.8 million barrels, while petroleum products trading increased by 13.7% to 85.5 million barrels. The increase in volumes was achieved generally on the back of further expansions in the Group's trading portfolio, including the addition of 16 new crudes from various countries in Asia, the Middle East and the Caspian region.

For petroleum products, the higher traded volumes reflected the Group's intense efforts to capture market opportunities globally with a focus on newly-established trading frontiers in Europe and Russia.

Trading
In million barrels



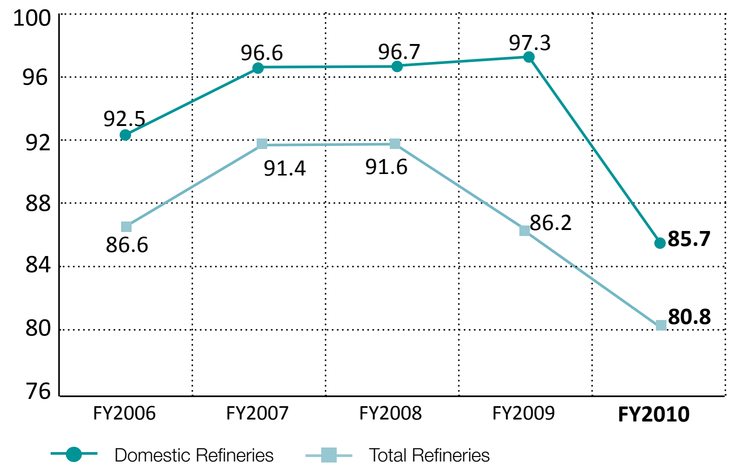
Crude Oil Refining

The Group's domestic refineries continue to play a strategic role in adding value to the nation's petroleum resources, as well as enhancing the security of its energy supplies. During the year, the Group's domestic refineries collectively achieved a throughput volume of 118.6 million barrels and reflected a lower utilisation rate of 85.7% mainly due to the planned shutdown of subsidiary Malaysian Refining Company Sdn Bhd (MRC) for a plant revamp and turnaround exercise. Upon completion, this exercise is expected to strengthen MRC's refining capabilities beyond its nameplate capacity of 100,000 barrels per day as well as provide greater flexibility in crude sourcing.

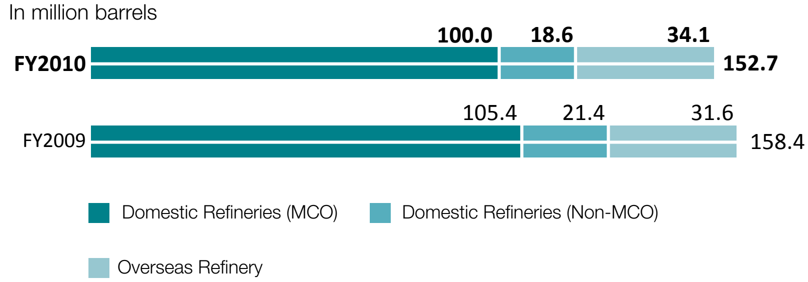
Despite the lower domestic refinery utilisation rate, the overall reliability rate increased further to 98.9%, a testimony to the Group's continued operational excellence. The strong emphasis on safe operations was recognised at both the national and international levels, with both PETRONAS Penapisan (Melaka) Sdn Bhd (PP(M)SB) and MRC having received major awards in the oil and gas sector - the Royal Society for the Prevention of Accidents (RoSPA) Award 2010 and the 2008/2009 Prime Minister's Hibiscus Award for Excellent Environmental Performance.

The Group's refinery in Durban, South Africa, owned and operated by subsidiary Engen Ltd (Engen) - a leading South African fuels and lubricants marketer - recorded a marked improvement in both its refinery utilisation and reliability rates, which increased to 68.1% from 57.4% and to 95.6% from 88% respectively during the year in review. This has enabled the Group's international refining operations to achieve a higher throughput volume of 34.1 million barrels.

Utilisation Rate for Group's Refineries (%)



Refining
In million barrels



Petroleum Products Retail

The Group's domestic and international retail operations achieved a higher sales volume of 151.4 million barrels of petroleum products, an increase of 11% from the previous year.

Amid stiff competition, the Group's domestic retail arm, PETRONAS Dagangan Bhd (PETRONAS Dagangan), registered a higher sales volume of 81.9 million barrels of petroleum products (including commercial sales) and continued to maintain its position as the nation's leading marketer of petroleum products with a total market share of 43.2%. Efforts to improve its network outreach saw the addition of 13 new stations during the year, bringing the number of total stations in its retail network to 925. The Group also added 24 sites to its NGV stations network for a total of 142.

To continue improving its value proposition to its customers, PETRONAS Dagangan also successfully introduced its EURO 2-M compliant fuels, i.e. PRIMAX 95, PRIMAX 97 and Dynamic Diesel. PRIMAX 95 was launched in May 2009, several months ahead of the official launch of RON 95 petrol throughout Malaysia on 1 September 2009.

In South Africa, Engen maintained its market dominance, and achieved higher sales volume, particularly in the transportation and commercial sector, despite continued pressure from competitors' aggressive pricing in key sectors. Following moves by various competitors to downsize their operations, particularly in South Africa, Engen was presented with an opportunity to improve its future market leadership position.

As part of its growth strategy in the African Sub-Saharan territory, Engen succeeded in growing its business particularly in Namibia and Botswana. Engen also expanded its retailing presence in the Democratic Republic of Congo through the acquisition of FinaCongo's assets. With these acquisitions, Engen achieved an expanded network of 1,489 retail stations across the African continent.

NUMBER OF
RETAIL STATIONS
IN MALAYSIA

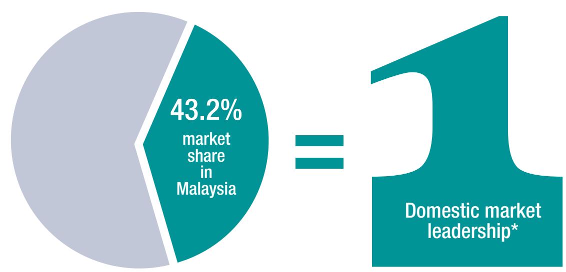
PETRONAS DAGANGAN

FY2010 925

13

FY2009 912

Petroleum Products Retail in Malaysia



* Combined retail, commercial and LPG sectors

NUMBER OF
RETAIL STATIONS
ACROSS AFRICA

ENGEN

FY2010 1,489

16

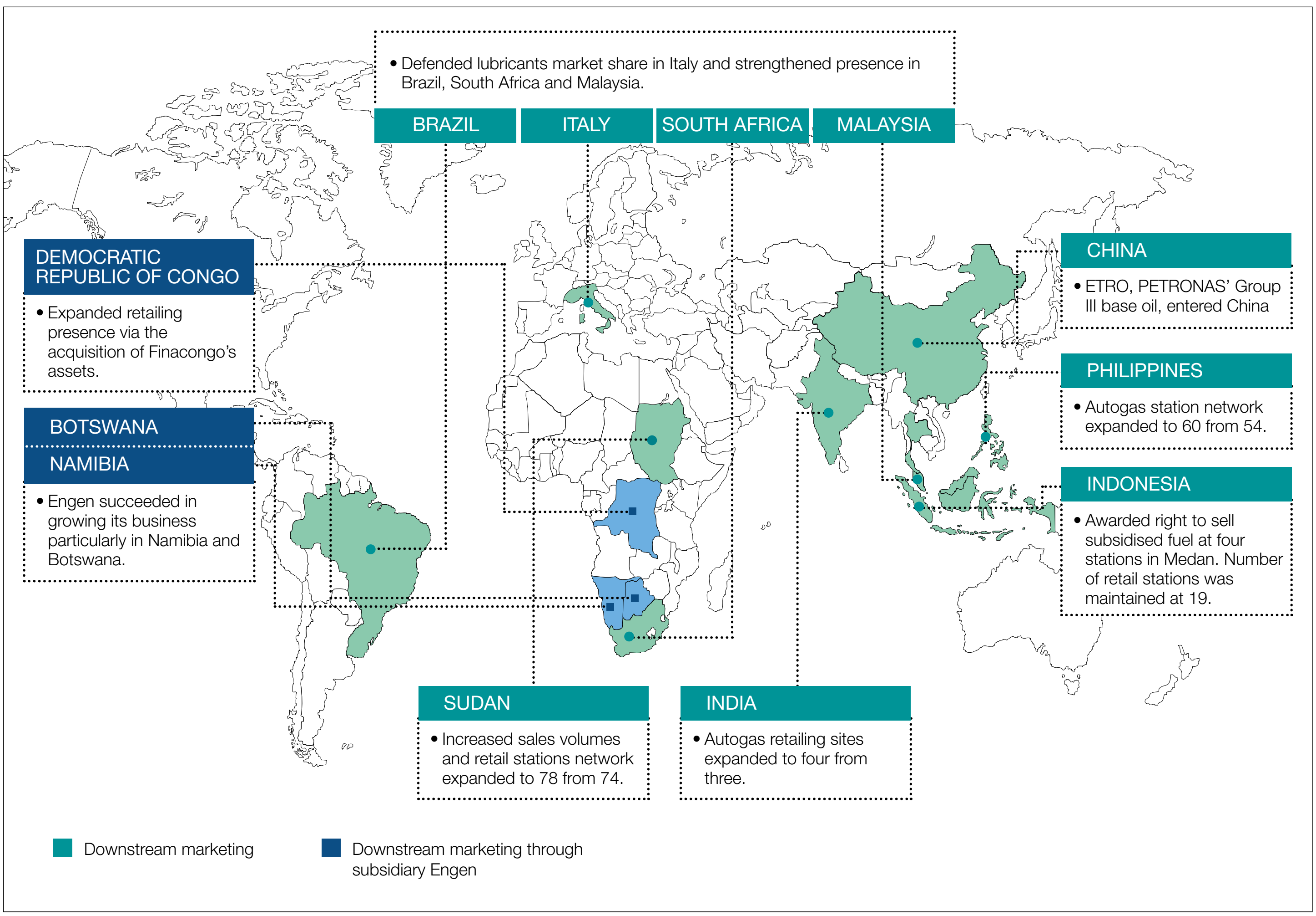
FY2009 1,473

In Sudan, PETRONAS Marketing Sudan Limited (PMSL) attained higher sales volumes reflecting improved performance of its retail operations, as well as increased sales to support the United Nations' operations in the country. During the year, PMSL also expanded its network reach, which now boasts a total of 78 stations.

In Indonesia, while the number of retail stations was maintained at 19, the Group made a breakthrough when four of its stations in Medan were awarded the right to sell subsidised fuel, helping the Group to improve its sales volume and profitability.

Elsewhere, in Thailand, the number of stations decreased to 98 from 116 due to station rationalisation exercise. In the Philippines, the autogas station network expanded to 60 stations from 54, while operational autogas retailing sites in India increased to four.

Downstream Marketing Highlights for the Year



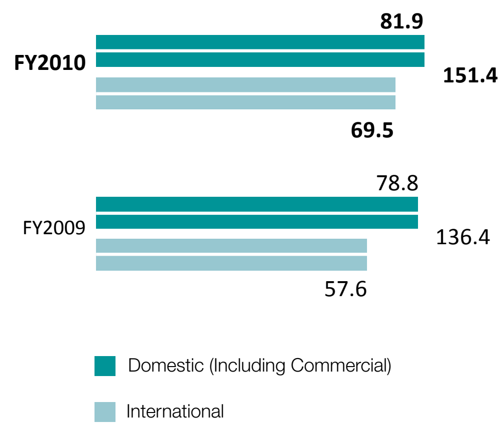
Lubricants

The Group's lubricants business, led by PETRONAS Lubricants International (PLI), continued to deliver a resilient performance during the year. Despite unfavourable market conditions, PLI successfully defended its market share in Italy, and strengthened its presence further in Brazil, South Africa and Malaysia, through aggressive marketing efforts. The introduction of new product ranges – URANIA, Syntium Moto and M-Plus – also helped strengthen the Group's competitive positioning.

With the five-year partnership agreement between PETRONAS and the Mercedes GP team in Formula One, the Group's lubricants business is poised to gain from increased global exposure for its product portfolio, as well as from increased global marketing and technological advances on new product development.

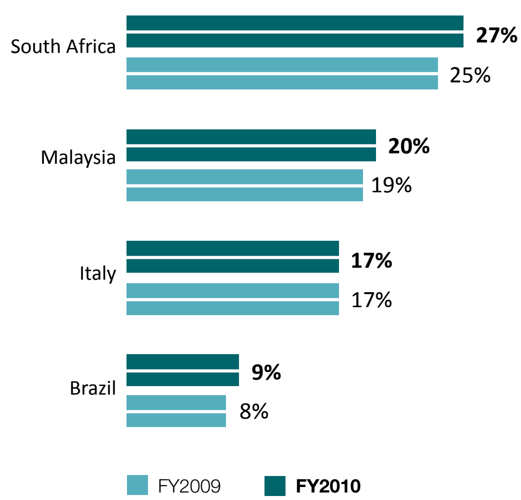
Petroleum Products Retail

In million barrels



Lubricants

% of total market volume



Petrochemical

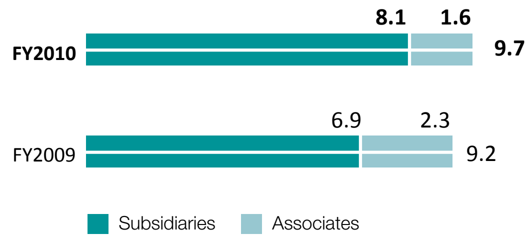
The Group (including its associates) produced 9.7 million tonnes of petrochemical products during the year, a 5% increase from 9.2 million tonnes in the previous year, reflecting improved operational performance as well as the first full-year operation of the Mega Methanol plant. The Group's petrochemical plants also achieved a higher reliability rate of 96.2% during the year in line with its aim of achieving operational excellence.

Sales volume increased by 17% to 6.7 million tonnes, resulting from the Group's ability to market its products in various regional economies whose demand proved comparatively more resilient in the face of the global downturn.

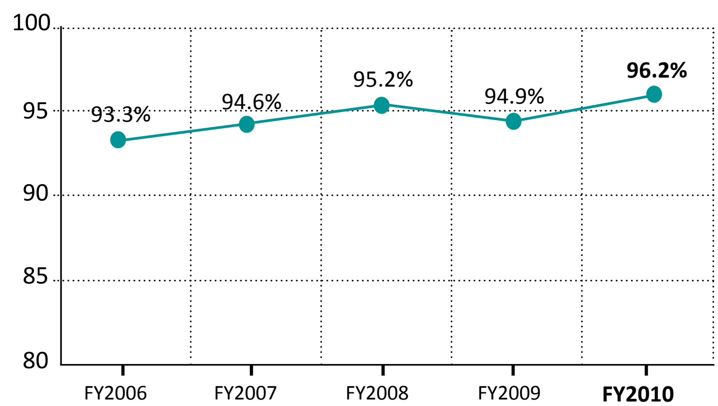
During the year, the Group also strengthened its regional position in the olefins and derivatives business with the acquisition of The Dow Chemical Company's shareholding in OPTIMAL Group of Companies. With the purchase, PETRONAS now holds an 88% equity stake in Optimal Olefins Malaysia Sdn Bhd, and 100% stake in both Optimal Glycols Malaysia Sdn Bhd and Optimal Chemicals Malaysia Sdn Bhd.

Production Volume

In million tonnes



Average Petrochemical Plant Reliability



Outlook

Global oil demand is expected to recover in response to improving global economic fundamentals, albeit unevenly distributed geographically. Emerging economies will show more substantial recovery compared to developed economies. Oil will remain an important financial market asset, where financial conditions, in addition to oil market fundamentals, will grow as an important variable in determining oil price behaviour and volatility. To mitigate trading risks and manage inventories in line with increased crude price volatility, PETRONAS' trading and refinery operations will focus on risk and inventory management processes and systems to manage sudden price fluctuations.

Going forward, OPEC may see more ability to control and influence oil prices, given the limited spare capacity of non-OPEC to produce additional barrels. With ample supply in the current market - 2.7 billion barrels in OECD country stocks, 6 million barrels in OPEC spare production capacity and 0.5 million bbl/day in non-OPEC supply growth - there is sufficient access capacity to cover the 1.1 million bbl/day growth in oil demand expected in 2010. A well supplied market, despite a rise in global oil demand, will keep prices within the current OPEC range.

Refining margin is expected to remain suppressed on the back of 'lost demand', as well as abundant new and spare refining capacity till 2018. As a precautionary measure, PETRONAS operating refineries will need to brace themselves for prolonged bearish margins. Unlike previous refinery boom-bust cycles, the capacity overhang is seen as more of a structural geographical realignment of demand and economic growth, from the OECD countries to the emerging economies in the East. Going forward, refining assets in mature markets will be most vulnerable as OECD demand peaks, while emerging economies are expected to show robust growth. It is expected that fully integrated and niche refiners will have a higher probability of survival, while merchant refineries will face a very uncertain future. Refinery expertise will become available from this capacity rationalisation process, which could present PETRONAS with the opportunity to acquire good refinery skills.

For the petrochemical industry, the market exhibited improved demand in the last quarter of financial year 2010. The improvement in demand is driven by a faster pace of recovery in the Asia-Pacific markets and restocking activities. China still plays a key role in how the petrochemical market fares in 2010 onwards. The country's demand growth still leads the global march for petrochemical consumption. The revival of global economic growth and industrial consumption primarily driven by packaging, automotive, building and construction industries will also spur greater use of petrochemicals. Although there is pressure on margins due to increased capacity additions, a gradual recovery in utilisation rates is expected to occur with a sustainable margins outlook likely to continue. There is a strong possibility that prices of petrochemicals will stabilise and the prices will depend on how much consolidation takes place outside the Middle East, and also the cost-push factor from feedstock.

To ensure that the Downstream Business remains resilient, PETRONAS will maximise value creation via greater integration along and across its business streams. In Malaysia and South Africa, PETRONAS will continue to maintain its dominant position in those markets, while elsewhere, PETRONAS will selectively expand its business presence in predefined growth markets via organic growth and the acquisition of assets. Furthermore, PETRONAS will continuously assess the quality of its portfolio of assets in order to optimise and maximise returns for the Group.

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Logistics & Maritime Business

Highlights

2 Aframax. 5 chemical tankers

Took delivery of two Aframax crude oil tankers and five chemical tankers during the financial year.

Oil terminal JV with VTTI

Entered into a joint venture (JV) agreement with Vitol Tank Terminals International BV (VTTI) and VTTI Tanjung Bin SA on constructing, commissioning and operating an oil terminal at Tanjung Bin, Johor, Malaysia.

Overview

Led by subsidiary MISC Berhad (MISC), PETRONAS' Logistics and Maritime (L&M) Business is involved in the transportation of liquefied natural gas, crude oil, petroleum products, petrochemicals, vegetable oil and containers, as well as other energy related activities focused on offshore and heavy engineering business.

Globally, MISC is the largest single owner-operator of LNG carriers and the third largest owner of Aframax tankers as at 31 March 2010.

TOTAL FLEET SIZE		
2010	117	
		-2
2009	119	

Fleet Size

MISC-Owned Fleet by Business	FY2010	FY2009
LNG		
- No of vessels	**29**	29
- Capacity ('000 deadweight tonnes)	**2,086**	2,086
Petroleum		
- No of vessels	**44**	45
- Capacity ('000 deadweight tonnes)	**6,489**	6,412
Chemical		
- No of vessels	**17**	17
- Capacity ('000 deadweight tonnes)	**521**	461
Liner		
- No of vessels	**18**	19
- Capacity ('000 deadweight tonnes)	**616**	625
FPSO		
- No of facilities	**4**	4
- Production Capacity ('000 bpd')	**400**	400
- Storage Capacity ('000 barrels)	**6,339**	6,339
FSO		
- No of facilities	**5**	5
- Storage Capacity ('000 barrels)	**3,331**	3,331
Total Fleet Size	**117**	119

The Year in Review

Despite the challenging environment that had placed pressure on shipping rates, the Group's L&M Business, continues to position itself for potential business growth as the market moves into the recovery period.

As part of a strategy to revitalise its fleet to meet growing global demand, MISC, during the year, witnessed the delivery of five IMO type 2 double hulled chemical tankers as well as the delivery of two Aframaxes.

During the year, MISC Group's vessel utilisation was at 94.4%, a decline from 97.2% due to the ongoing reduction in global trade coupled with surplus tonnage. Slot utilisation rate for Liner Business declined further to 62.2% from 67.5% in the previous year mainly due to rationalisation of its Asia-Europe Trade routes.

MISC Offshore Business rolled out its second venture into Vietnam through its strategic partnership with Petroleum Technical Services of Vietnam (PTSC) for FPSO Ruby II. The Business also created another milestone by collaborating with Global Process System (GPS) to supply, operate and maintain the two mobile offshore production units (MOPUs) at Block SK305 offshore Sarawak for PCPP Operating Company Sdn Bhd (PCPP), a subsidiary of PETRONAS Carigali Sdn Bhd.

The recent slump in economic activities has also resulted in the further reduction of freight rates for the Liner Business. During the year, the Business took proactive steps to redeploy from the Asia-Europe trade routes and refocused its shipping activities to more profitable trade routes of the intra-Asia region, finding its niche and specialisation within the Global Halal trade. In addition, the Liner Business also launched three new intra-Asia services - Malaysia East Asia Service (MES), East India Service (EIS) and Siam-Singapore Service (SSS) - to complement current services and to improve MISC's position in the region. Currently, MISC is ranked 6th in terms of capacity deployed in the intra-Asia region.

In line with MISC's strategy of growth through partnership, MISC undertook several JV activities during the year. The Chemical Business expanded its market in tank terminal operations to provide additional opportunities for business growth. MISC and its wholly-owned subsidiary, MISC International (L) Limited, entered into a JV agreement with Vitol Tank Terminals International BV (VTTI) and VTTI Tanjung Bin SA, to participate in a JV company that would hold 100% shares of ATT Tanjung Bin Sdn Bhd (ATB). ATB is established for the purpose of constructing, commissioning and operating an oil terminal with a base capacity of approximately 841,200 m^3 at Tanjung Bin, Johor.

Further to that, MISC recently entered into a Sale and Purchase Agreement with Vitol to acquire 50% of the shares in VTTI, which owns and operates a network of petroleum products terminals with a gross combined capacity of nearly 6 million cubic metres and which is set to expand to nearly 7 million cubic metres by 2013.

In the year under review, MISC moved to strengthen its position in the Middle East. MISC's wholly-owned subsidiary, MISC Agencies Sdn Bhd (MISA) entered into a JV agreement, during the year, with Al-Hilal Shipping Agency LLC to incorporate a JV company in UAE as the sole and exclusive shipping agent for MISC, and to carry out other allied shipping activities in UAE. The JV company - MISC Shipping Services UAE LLC - was incorporated with 51% ownership by Al-Hilal and the remaining by MISA. MISC also opened a new regional office in Dubai, UAE to provide customers in the region with direct contact with MISC for all their shipping needs.

MISC's subsidiary, Malaysia Marine and Heavy Engineering Sdn Bhd (MMHE) continued to chart progress in the marine and heavy engineering business. During the year, MMHE completed three fabrication and three marine conversion projects, as well as marine repair works for 74 vessels.

Technology & Engineering

Overview

Technology plays a crucial part in PETRONAS' growth through business enhancement and operational excellence. With innovation, PETRONAS has added value in areas of E&P, Gas and Downstream operations.

In the upstream sector, a key area in addressing the nation's energy needs is in developing technologies to increase PETRONAS' reserves and enhance the productivity as well as recovery of each field. As oil and gas discoveries are being made in acreages that are geologically more complex, PETRONAS remains committed to investing in research and development (R&D) to develop and apply niche and frontier technologies.

In the downstream sector, PETRONAS also invests in R&D in treatment of feedstock, maximising throughput and yield in the oil, gas and petrochemical sectors. By improving its processes, facilities and materials, the Company aims to continue achieving higher levels of operational excellence. At the same time, as quality standards and demand for new applications increase, PETRONAS continues to look into improving its range of manufactured products to meet the needs of a fast-evolving world.

Spearheading these efforts is PETRONAS' Technology and Engineering (T&E) Division, which works in close collaboration with the core businesses and there have been significant achievements across the Group in the continued efforts to add value to hydrocarbon resources.

The following are some of the achievements made during the financial year.

Enhanced Oil Recovery (EOR)

The average recovery factor for Malaysia's oil producing fields is about 35%. PETRONAS has recognised the need to further increase the recovery factor and has, therefore, been aggressively pursuing EOR implementation in its fields. Among the more promising EOR techniques being pursued includes Chemical EOR (CEOR).

Methods for CEOR include the utilisation of polymers, surfactants and alkaline as well as their combinations, for example, Alkaline-Surfactant-Polymer (ASP) flooding and the use of microemulsions (micellar flooding).

The development of CEOR technologies is based on the specific reservoir characteristics, and focus on commercial viability is necessary to ensure success of the technology application in PETRONAS fields. PETRONAS is pursuing R&D in collaboration with China National Petroleum Corporation (CNPC) in order to develop indigenous super surfactants and polymers to withstand PETRONAS field conditions, such as high temperatures and high water salinities. This collaboration aims to develop a systematic procedure to evaluate CEOR applications in Malaysian oilfields.

By introducing suitable chemicals into the water-alternating-gas (WAG) process, breakthrough performance can be achieved through 'hybrid EOR', such as Foam Assisted WAG and also Polymer and Foam Assisted WAG.

As the global oil consumption is starting to outpace new hydrocarbon discoveries and the production of 'easy oil' will not be able to meet the growing demand, CEOR methods indeed have a promising future.

Moving forward, in view of the potential of the EOR technologies in the future, PETRONAS will continue to pursue technology development and seek out potential opportunities for collaboration, alliances and partnerships on EOR R&D.

Ionic Liquids

PETRONAS is currently developing proprietary technologies in the frontier area of ionic liquids with the aim of removing contaminants in the crudes and gas, such as mercury, sulphur and carbon dioxide, as well as for acid gas management, while reducing the cost associated with conventional technologies.

Early achievements in this area include three patents being filed. Initial findings are very promising with several imminent breakthroughs. Efforts are also being made across the Group to bridge the gap from research to commercialisation, which is vital to the ionic liquids journey.

Green Technologies & Biochemicals

PETRONAS continues to invest in green technologies and developing in-house green solutions. In particular, research is ongoing for strengthening PETRONAS' ECOPLUS™ environmentally friendly, degradable polymer series.

Efforts are also underway in the development of bio-based chemicals with the aim of being a niche player in the biopolymers and bio-lubricants market in the near future. This is expected to enhance PETRONAS' competitive advantage in the increasingly challenging chemicals market.

Patents

In the year under review, 21 patents were filed by PETRONAS, double the number from the previous year. As a result, this has placed PETRONAS in 11th position amongst the top organisations in Malaysia for the number of patents filed, an improved ranking from the 15th position in the previous year. PETRONAS is actively pursuing the commercialisation and deployment of its technologies, and for the year under review, the commercialisation effort has realised about RM13 million in the form of royalty returns.

Operational Excellence

PETRONAS has excellent capabilities in Plant Operation Management, having developed an integrated Plant Operations Capability System (iPOCS). This system provides a comprehensive and systematic approach to plant operation management, which supports operational excellence in terms of technical governance and optimisation of operations and business processes. The successful implementation of iPOCS has resulted in PETRONAS' plants performing at high reliability and utilisation rates.

In addition to this, PETRONAS has developed and owned a structured Value Improvement Programme, which has been proven in realising maximum values by managing assets more efficiently and optimising the value chain.

PETRONAS also has the expertise in managing energy efficiency, which has led to reduction in carbon emissions at plants and to superior performing assets, by utilising its in-house Energy Loss Management system. Additionally,

PETRONAS has undertaken Upstream Platform Optimisation efforts, focusing on key areas that contribute to reliability, effective cost reduction and waste management.

PETRONAS has implemented a Project Excellence Framework, which is governed by the PETRONAS Project Management System. This stage-gated process for project management ensures that projects are managed well in all phases. Best practices are also incorporated throughout the stage-gated process to ensure commercial viability and maximise reliability, efficiency and optimisation of plant performance.

PETRONAS has developed and deployed the Downcomer Distributor and Advanced Dispersion Valve (ADV-P) Pinnacle Performance trays in its petrochemical and gas processing plants. This is to improve the performance of the distillation columns, which includes increase in capacity to the distillation columns and enhancing the efficiency in recovering products. In addition to the ADV-P trays, the latest innovation item under this technology is the vapour horn technology. PETRONAS has installed an optimised and improved vapour horn or vapour distributor for the vacuum column in its Melaka Refinery. This implementation has resulted in increased yields of valuable light gas oil (motor gasoline cut).

Disclaimer on forward-looking statements: Forward-looking statements involve inherent risks and uncertainties. Should one or more of these or other uncertainties or risks materialise, actual results may vary materially from those estimated, anticipated or projected. Specifically, but without limitation, capital costs could increase, projects could be delayed, and anticipated improvements in capacity, performance or profit levels might not be fully realised. Although PETRONAS believes that the expectations of its management as reflected by such forward-looking statements are reasonable based on information currently available to it, no assurances can be given that such expectations will prove to have been correct. Accordingly, you are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they are made. PETRONAS undertakes no obligation to update or revise any of them, whether as a result of new information, future developments or otherwise.

Our People

Highlights

40,992 staff

PETRONAS employees Group-wide increased by about 4.48% to 40,992 as at 31 March 2010.

Accelerated Capability Development

PETRONAS has put in place the Accelerated Capability Development (ACD) programme for junior executives to expedite the strengthening of their ability to work independently.

Overview

In view of PETRONAS' diverse and relatively young workforce (where the average age is just below 36 years old), the Company believes in continuously building and developing its people with the right capabilities, competencies and leadership skills to ensure the continuous efficiency, reliability and safety of the Group's operations. PETRONAS strives to provide its employees with a safe working environment, supported by competitive remuneration packages and equal opportunities for career development without any discrimination based on race, gender, country of origin or culture.

PETRONAS provides employment opportunities based on merit in compliance with all applicable laws and regulations to individuals who are qualified to perform the job.

Building Capability

During the year under review, the shortage of critical skills faced by the oil and gas industry represented the key people-related challenge faced by PETRONAS. During the year, the Company's Human Resource strategies were focused mainly on people development and acceleration of professional capabilities.

These included emphasis on implementation of smooth succession planning (including talent review and staff mobility), particularly for critical skills and leadership positions; the continued implementation of ACD for junior executives to expedite the strengthening of their ability to work independently, and competency-based assessment systems for the promotion of non-executive staff (PETRONAS Competency-Based Assessment System for non-executive technical staff and Non-Executive Non-Technical Competency Interview for non-executive non-technical staff); the continued implementation of various leadership programmes for senior and middle management staff, and for supervisors and other executives, to foster the ability to take charge and embrace new challenges, while sustaining high levels of motivation and ownership; continuing with Technical Professional Career Progression programme for Technical Professionals, to expand and deepen their knowledge in specific areas; and continuing to encourage the learning culture and foster development through other programmes, such as Career Enhancement Opportunity and Staff Development Programme.

In addition, staff engagement sessions were regularly conducted to maintain a harmonious working environment, to understand staff expectations, as well as to provide platforms for our senior management to share the Company's business directions and challenges.

PETRONAS' rewards and consequence management system, which is in line with the Company's Intensified Performance Management System, continued to be the key driver in differentiating employees with strong performance and outstanding leadership from marginal performers who need specific development plans to improve.

PETRONAS recognises and respects the rights of its employees to have freedom of association and choice of representative organisations consistent with applicable laws. PETRONAS' in-house Unions subscribe to the Malaysian Industrial Laws, which provide avenues for collective bargaining on the benefits of non-executive staff.

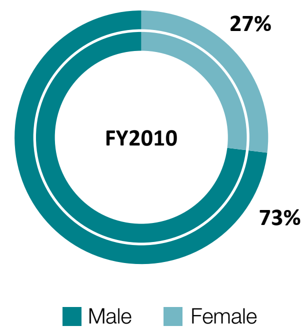
PETRONAS also believes that businesses have a role to play in the promotion and protection of labour rights. The Company does not, as a matter of policy and practice, allow any of its operations, parts or infrastructure anywhere in the world, to be used in ways that would enable violations of human rights or biasness against its cherished cultural or generational diversities. PETRONAS' policies and practices adhere strictly to the requirements of labour laws and regulations in each country the Company operates in.

Total Number of Employees Group-wide

* 62% were at companies employing PETRONAS' terms and conditions

PETRONAS Employees

Under PETRONAS terms and conditions



Proportion of Local and Non-Local Staff in Malaysia and Selected Locations:

Country	Local	Non-Local
Egypt	62%	38%
Indonesia	84%	16%
Malaysia	97%	3%
Myanmar	76%	24%
Sudan	81%	19%
Turkmenistan	71%	29%
Vietnam	89%	11%

Health, Safety & Environment (HSE)

Highlights

29.6%

Percentage improvement in Lost Time Injury Frequency (LTIF).

11.4%

The Group's Total Reportable Case Frequency (TRCF) improved by 11.4% from the previous year, a performance that exceeded the industry average.

Overview

PETRONAS is committed to excellence in HSE performance as an element of its Operational Excellence Framework to deliver sustainable best-in-class performance. PETRONAS strives to uphold the highest standards of conduct to safeguard its employees, the communities surrounding its operational sites and the environment from unacceptable risks.

To achieve this objective, PETRONAS has continued to improve its standards and practices, risk management and emergency preparedness to ensure its HSE practices facilitate safe working conditions and a healthy workforce, while minimising the impact to the environment.

The Company encourages all employees to practice a healthy lifestyle through various Group-wide health and wellness programmes.

PETRONAS is also fostering a culture of zero tolerance of safety-related incidents by inculcating leadership commitment and ownership in employees to create a safe working environment.

To protect and reduce the impact of its operations on the environment, PETRONAS has strengthened its environment management system and is actively exploring solutions to reduce emissions, use natural resources more sustainably, as well as minimise waste.

PETRONAS places importance on building the capabilities of its HSE personnel to ensure a high level of competency to support HSE performance excellence.

Initiatives

PETRONAS continuously enhances its initiatives aimed at integrating and strengthening existing systems. The Zero Tolerance (ZeTo) Rules, comprising 10 mandatory rules, is a drive towards reducing fatal accidents across the Group by ensuring that work carried out by both staff and contractors alike is performed safely. The ZeTo Rules are based on related and relevant PETRONAS Technical Standards (PTS).

iHSE, the Group's first standardised HSE information management system, has been rolled out to 25 domestic operating units (OPUs) and to our subsidiary Engen in South Africa. The enterprise-wide system is a tool to track, implement and monitor HSE action items taken and closed to prevent recurrences of incidents. It also aims to enhance collective intelligence in HSE and promote the seamless sharing of HSE knowledge, best practices and lessons learnt Group-wide.

PETRONAS has also developed a framework on Human Factors Engineering (HFE). HFE is a multidisciplinary system that focuses on the interactions between humans and their work systems. HFE optimises human and system performance by reducing human errors. HFE training modules have also been completed. PETRONAS conducted two HFE pilot site assessments at Ethylene/Polyethylene (Malaysia) Sdn Bhd (EPEMSB) and PETRONAS Carigali – Development Division.

Additionally, PETRONAS has moved forward in its sustainability practices by establishing Sustainable Development Governance, developing greenhouse gas (GHG) verification capability as well as conducting a biodiversity assessment.

Making Health a Priority

During the year under review, PETRONAS ran several initiatives to help staff live healthier lives and make better lifestyle choices. It enhanced the Personal Health Management (PHM) programme and conducted health campaigns across the Group. Programmes on weight management, active lifestyle and quitting smoking were widely implemented.

PETRONAS has identified industrial hygiene hazards and issues in the Group through the implementation of Health Risk Assessments (HRAs). Some 80% of domestic OPUs have conducted HRAs and are implementing remedial action plans.

A Pandemic Preparedness Strategic Action Plan was also established during the year to mitigate the spread of Influenza A (H1N1). Compared to the national average, PETRONAS registered lower confirmed cases of Influenza A (H1N1), thanks to a number of measures undertaken, including supplying domestic and international operations, offshore platforms and MISC fleets with antiviral medication, as well as providing all employees and dependents with voluntary Influenza A (H1N1) vaccination.

To ensure its preparedness during emergency situations, PETRONAS has enhanced its emergency training modules and medical evacuation procedure – Emergency and Crisis Preparedness Programme, as well as organised emergency exercises with Government authorities and non-governmental organisations. PETRONAS has also developed the Group Mass Casualty Management Plan for critical domestic locations, such as Kertih and Bintulu. The Country Support Plan programme was carried out in Egypt, Ethiopia, Sudan and Turkmenistan.

PETRONAS Carigali's Excellence in HSE

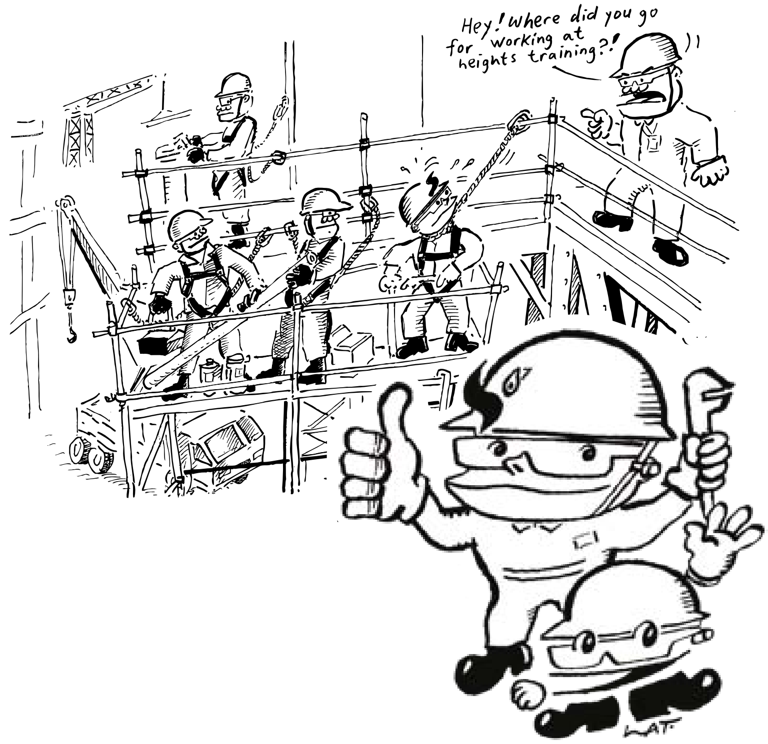
PETRONAS Carigali improved its HSE performance despite the increase in man-hours to 80 million, recording a TRCF of 0.49, the best in the company's history. It also came in second in the OGP list. The TRCF of 0.49 is a 10.9% improvement from the previous year, and outperformed the industry average of 2.08 (for 2008), as benchmarked by OGP. PETRONAS Carigali's TRCF has been steadily improving over the last three years despite the increase in man-hours.

Maintaining a Safe Working Environment

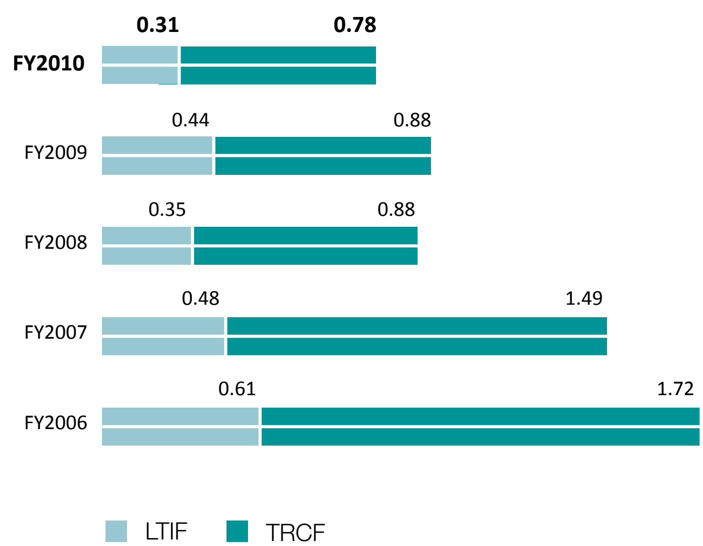
During the year under review, the Group's TRCF improved by 11.4%, a performance that exceeded the industry average, further consolidating the improvements that had been achieved in the last five years. This was also true of the Group's Fatal Accident Rate which declined further despite an increase in manpower strength of 25.6% during the year. The Group's LTIF also improved by 29.6% compared to the previous year's performance.

PETRONAS has set zero fatality as its HSE performance target and is relentless in its efforts to achieve this goal. Its ZeTo Rules have been drawn up to create a more focused and firm approach to addressing the recurring causes of major accidents and fatalities, such as road accidents, falls from height and hits by objects. It has also adopted best practices in critical areas, such as Working at Height, Fire Risk Assessment, Selection and Testing of Flame Retardant Fabrics, Abseiling, Ergonomics, Volatile Organic Compounds and Thermal Stress Protection through the development and revision of HSE PTSs.

PETRONAS has also implemented a Behavioural Safety programme, as well as focused on Process Safety and HFE implementation through the enhanced HSE Management System (HSEMS), which is aligned with ISO 14001 and OHSAS 18001.



LTIF and TRCF for the Group



Towards More Effective Environmental Management

PETRONAS has improved its Oil Spill Response Preparedness by reviewing and enhancing its internal standard for Oil Spill Contingency Planning. The enhancement incorporates Incident Command System philosophy, amendments of the National Oil Spill Response Contingency Plan, and requirements for international operations and onshore oil spills. To enhance the capability of PETRONAS' employees in handling such situations, the International Maritime Organisation Tier 1 Oil Spill Response training modules and Oil Spill Response Capability Assessment Checklist were developed.

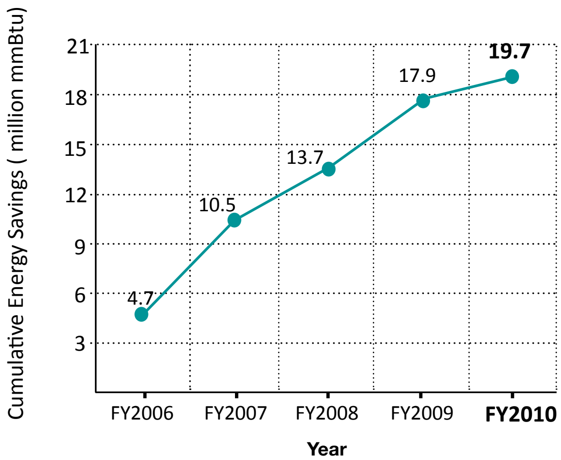
PETRONAS also works closely with the Malaysian Department of Environment (DOE) to review the National Oil Spill Contingency Plan by providing industry insights. Additionally, PETRONAS participated in three National Oil Spill Exercises to test the integration between the Malaysian Government's and the industry's plans.

PETRONAS is also ensuring internal preparedness to comply with upcoming Malaysian environmental regulations. These include the upcoming DOE's Contaminated Land Management Guidelines through the development of Integrated Environment Site Management (IESM) Guidelines for the Group. The IESM document will be issued as a PTS in 2011, which will also serve as a guide to all international OPUs in managing land contamination risks.

Energy Savings

PETRONAS' Energy Loss Management (ELM) and Value Improvement Programme enable Operating Units to take a broad array of operational changes to realise energy efficiency. PETRONAS is on track to meet its target of improving energy efficiency for its Malaysian operations across the refining, gas processing, petrochemical and upstream operations. In the year under review, it achieved 67% of the target set for energy savings at its downstream plants and 25% for offshore fields. To-date, PETRONAS has realised energy savings of 19.7 million mmBtu from the refining, gas and petrochemical operations with a further potential energy savings of 24.6 million mmBtu.

ELM in Domestic Downstream Operations



PETRONAS continues to be locally and internationally recognised for its HSE performance. It has been awarded several accolades by the following bodies:

Royal Society for the Prevention of Accidents (RoSPA) Occupational Health and Safety Awards

Chemical Industries Council of Malaysia (CICM) Responsible Care Awards

Malaysian Society for Occupational Safety and Health (MSOSH) Awards

International Association of Oil and Gas Producers (OGP)

Prime Minister's Hibiscus Award

Corporate Social Responsibility

Highlights

RM158 million

Value of education sponsorships provided by PETRONAS in the year under review.

171

Number of National Consumer Campaign (3K) engagements held across Peninsular Malaysia.

3,000

Number of students involved in Program Bakti Pendidikan PETRONAS (Program Bakti) in Malaysia.

Over 55,000

Number of students reached by the PETRONAS Mobile Library in Sudan.

3 PM's CSR Awards

Won three awards at the Prime Minister's CSR Award 2009: Best Overall CSR Programme, Education, and Culture and Heritage.

Overview

PETRONAS supports education and community development programmes that help enrich people's lives and empower them with new knowledge and skills. The Company continues to support institutions of learning, as education is the cornerstone of PETRONAS' social investments.

As education plays a vital role in the growth of the oil and gas industry and for nations where we operate, PETRONAS continues to invest in education and human capital building both in Malaysia and abroad.

PETRONAS' community activities address societal needs in a consistent and sustainable manner, providing opportunities for communities to lead better lives, and contribute towards the development of nations where the Company operates.

With activities that reach people in both urban and rural areas in our locations of operations, PETRONAS focuses on long-term programmes which enable communities to lead healthy lives. The Company works in partnership with local communities, industries and governments to meet common societal development objectives.

Education

Malaysian students and those from host nations are sponsored based on merit to study in Malaysian and foreign universities. In the year under review, PETRONAS provided sponsorships worth RM158 million. Its institutions of learning continue to attract both Malaysian and international students. Universiti Teknologi PETRONAS (UTP) offers undergraduate and postgraduate courses related to the oil and gas industry. Akademi Laut Malaysia (ALAM) is a one-stop maritime training centre for technical, administrative and management education for sea-based personnel. Institut Teknologi Petroleum PETRONAS (INSTEP) provides specialised training for the oil and gas industry.

New Student Intake

	FY2010		FY2009	
	Malaysia	**International**	Malaysia	International
UTP	**1,220**	**279**	1,222	311
ALAM	**273**	**64**	376	129
INSTEP	**708**	**60**	740	-

Community

In Malaysia, PETRONAS, in collaboration with the Federation of Malaysian Consumers Associations (FOMCA), held 171 engagements across Peninsular Malaysia for the National Consumer Campaign or Kempen Konsumer Kebangsaan (3K) in the year under review on smart and sustainable consumerism. As many as 14,584 participants from rural, urban and suburban communities, including primary schoolchildren and others, were involved in this awareness campaign. A 3K Awareness Survey carried out showed that the campaign had increased the awareness of the rights, responsibilities and financial literacy among the participants. Many had never experienced consumer education prior to the 3K campaign.

Program Bakti reached 39 schools across Malaysia in the year under review, involving over 3,000 students. The programme continued to produce results among borderline-performing primary schoolchildren preparing for Ujian Penilaian Sekolah Rendah (UPSR). As many as 249 students scored three to five A-grades in the public examination. The number of passes in English, Mathematics and Science subjects also increased to 65% from 50% previously.

Kenali Anak Kita (Know Our Children) is an awareness campaign to equip parents with the knowledge to prevent substance use and abuse among their children, and promote a healthy lifestyle. Launched in the year under review, the campaign is a collaboration between PETRONAS and Pengasih, a non-governmental organisation and self-help group affiliated with the World Federation of Therapeutic Communities that addresses drug, alcohol and other substance abuse.

Seven dialogue sessions have been conducted in Kedah, Kelantan, Kuala Lumpur, Perak, Pulau Pinang, Selangor and Terengganu. Over 3,500 parents have directly benefitted from the sessions.

PETRONAS also continued to actively contribute through community projects abroad via its international operations. PETRONAS performed upgrading works at a boarding school in Ashgabat and renovation works in one of its adopted schools in Turkmenbashy, Turkmenistan to help create a more conducive learning environment.

In Sudan, PETRONAS' long running community programmes continued to gain momentum in the year under review. The PETRONAS Mobile Library has reached 44 schools and has spread the joy of reading to over 55,000 students. The PETRONAS Debate & Quiz Trophy also attracted numerous schoolchildren to the initiative to help develop their English language proficiency. The debate attracted 270 debaters from 90 schools, and the quiz saw the participation of 528 students from 88 schools.

PETRONAS' programmes in Myanmar comprise long running socio-economic and humanitarian projects under the Yetagun Socio-Economic Development Programme umbrella. In 2010, the new projects introduced were newborn health programme at Longlone, Mother Circle programme at Kanbauk and toy-making programme at both locations.

In Vietnam, PETRONAS' contribution to the nation's development through education was recognised through the Certificate of Merit in Education by the President and Deputy Prime Minister of Vietnam in 2010.

PM's CSR Award

PETRONAS received recognition from the Malaysian Government for its outstanding contributions in the field of corporate social responsibility (CSR) at the Prime Minister's CSR Award 2009. PETRONAS won three awards: Best Overall CSR Programme, Education, and Culture and Heritage. PETRONAS previously won the PM's CSR Award in the Education Category in 2007.

Main Events

EXPLORATION & PRODUCTION

15 April 2009
PETRONAS Carigali Sdn Bhd (PETRONAS Carigali) together with partners Industrial Petrochemical LLC and Oman Oil Company signed a PSC for Natih Block in Oman.

3 June 2009
PETRONAS signed a PSC with ExxonMobil Exploration and Production Inc (EMEPMI) and PETRONAS Carigali, its wholly owned subsidiary, for further development of seven fields, namely Seligi, Guntong, Tapis, Semangkok, Irong Barat, Tabu and Palas, offshore Peninsular Malaysia.

31 July 2009
PETRONAS Carigali (Turkmenistan) Sdn Bhd acquired the MOPU Saparmyrat Turkemenbashi and Floating Storage Offloading (FSO) vessel Ozughan from Single Buoy Mooring (SBM) Incorporation.

16 October 2009
PETRONAS International Corporation Ltd increased its stake in Cairn India to 14.94%, acquiring 43.6 million shares in Cairn India from Cairn Plc.

22 September 2009
PETRONAS entered into a farm-in agreement with ExxonMobil Oil Indonesia for a 20% stake in the Surumana oil block and the Mandar block in Sulawesi, Indonesia.

26 October 2009
Talisman Energy Inc, through its wholly owned subsidiary, Talisman Malaysia Limited, signed a PSC with PETRONAS and PETRONAS Carigali for the exploration and development of Blocks SB309 and SB310, offshore Sabah. Talisman holds a 70% participating interest in each block and is also the designated operator.

30 November 2009
PETRONAS Carigali signed a PSC for West Gelagah in Indonesia, whereby PETRONAS Carigali, which holds 60% interest, is the block's operator. Pertamina holds the remaining 40% interest.

11 December 2009
PETRONAS secured four major oil fields in Iraq, namely Majnoon, Halfaya, Badra and Gharaf. PETRONAS' effective stake in Gharaf (as operator) 60%, Majnoon 40%, Halfaya 25%, and Badra 20%.

21 January 2010
PETRONAS through PETRONAS Carigali (92.5%) together with partner United National and Gas Limited (7.5%) acquired deepwater Blocks MD4, MD5 and MD6 in Myanmar.

12 February 2010
PETRONAS awarded a PSC for Block SK320, offshore Sarawak, to MDC Oil and Gas (SK320) Ltd, a subsidiary of Abu Dhabi owned Mubadala Development Company, and to PETRONAS Carigali.

23 March 2010
PETRONAS, through PETRONAS Carigali, inked an alliance agreement with Dowell Schlumberger (Malaysia) Sdn Bhd to undertake the redevelopment of the Samarang field, offshore Sabah. Through the alliance, PETRONAS Carigali will leverage on Schlumberger's renowned subsurface technology, employing proven and new technologies, whilst enhancing staff capabilities in EOR.

GAS

17 June 2009

PETRONAS signed a Heads of Agreement to purchase LNG from the integrated LNG facilities currently being undertaken at Gladstone in Queensland, Australia by partners Santos GLNG Pty Ltd and PETRONAS Australia Pty Limited (PAPL).

14 July 2009

A joint venture (JV) agreement was signed between PETRONAS, Uzbekneftgaz and Sasol Ltd to develop a gas-to-liquid plant in Uzbekistan.

14 July 2009

Dragon LNG received its first commissioning cargo supplied by BG carrying 145,000 m^3 of LNG from Trinidad.

16 July 2009

Asean LNG Trading Co Ltd (ALTCO) celebrated its 100th traded cargo, which was loaded from the PETRONAS LNG Complex in Bintulu, Sarawak.

2 October 2009

PETRONAS held the opening ceremony of Dragon LNG at the Dragon Terminal in Milford Haven, Wales to commemorate the completion and commissioning of Dragon LNG, a receiving and regasification terminal. With Dragon LNG in operation, PETRONAS will enhance its presence in the UK market, specifically strengthening its position as a gas supplier and creating more opportunities to add value along the gas value chain.

25 October 2009

Malaysia LNG (MLNG) Group of Companies successfully delivered its first LNG cargo to the Yangshan LNG Receiving Terminal in Shanghai, China.

17 November 2009

ALTCO and Dong Energy S/A signed a Master Agreement in Copenhagen, Denmark. The agreement provides ALTCO the opportunity to expand its current market portfolio and enhance its networks and capabilities, as it pursues its strategy to seek new market outlets in Europe, especially into Gate LNG Terminal, Rotterdam, Netherlands.

26 November 2009

Chief Minister of Sabah Datuk Seri Panglima Musa Haji Aman officiated the ground breaking ceremony for the Kimanis Power Plant project in Kimanis Bay, Papar, Sabah, marking another milestone in the development of the state of Sabah. The proposed 300 MW combined cycle plant is being developed by Kimanis Power Sdn Bhd (KPSB), a 60:40 JV between PETRONAS Gas Berhad (PGB) and NRG Consortium (Sabah) Sdn Bhd, a business arm of Yayasan Sabah.

9 January 2010

MLNG successfully delivered its first LNG cargo to Shikoku Electric Power Co Inc, Japan under a long term contract of 15 years.

21 January 2010

PETRONAS signed a Memorandum of Understanding (MoU) with Mitsubishi Corporation to jointly develop a solar photovoltaic demonstration project in Malaysia. The signing of the MoU marked an important milestone for PETRONAS in harnessing renewable energy for future growth.

7 February 2010

Petgas Trading (UK) Limited, PETRONAS' gas trading arm in the United Kingdom, signed an LNG Put Option Agreement with Gazprom Global LNG Limited.

8 March 2010

PETRONAS signed a Gas Sales Agreement with upstream contractors Sarawak Shell Berhad and PETRONAS Carigali for natural gas to be produced from three fields in Block SK308 offshore Sarawak.

DOWNSTREAM

3 August 2009

The Dow Chemical Company and PETRONAS announced that they have reached an agreement for Dow's Union Carbide Corporation subsidiary to sell its entire shares of ownership in the OPTIMAL Group of Companies (OPTIMAL) to PETRONAS. Dow will continue to market OPTIMAL's basic and performance chemical products to Dow's existing customers in Asia Pacific.

1 September 2009

PETRONAS Dagangan Berhad (PETRONAS Dagangan) launched its new PETRONAS PRIMAX 95 petrol, which replaces its older RON 92 fuel in the market. PETRONAS PRIMAX 95 meets the Euro 2-M emission standards and is formulated using the new SINAR G07 additive that contains enhanced friction modifier, combustion improver and fuel detergent, all of which protect engine components and enhance overall engine efficiency.

5 October 2009

PETRONAS Dagangan introduced two units of B-Double tankers into its fleet of product movers, making it the first company in Malaysia to have high capacity tankers equipped with technologically advanced safety and security features to deliver its product to its customers

19 October 2009

PT PETRONAS Niaga Indonesia was awarded the rights to distribute more than 20 million litres of subsidised fuel through four stations in Medan, Indonesia

18 January 2010

PETRONAS Dagangan launched its new and improved PRIMAX 97 petrol, replacing PRIMAX 3. The enhanced fuel now comes with SINAR G07 additive to provide superior engine performance.

19 January 2010

PETRONAS Lubricants International Sdn Bhd (PLI) and PROTON Holdings Berhad signed a supply, technical and commercial collaboration agreement, paving the way for greater business integration and cooperation in the area of automotive lubricants and functional fluids. PLI will supply lubricants directly and exclusively to PROTON for further distribution to its sales and service network. PLI will also provide critical technical and commercial support for its products.

25 February 2010

The Sale and Purchase Agreement between PETRONAS Penapisan (Melaka) Sdn Bhd and PETRONAS Base Oil (M) Sdn Bhd for the supply of MG3 Plant's base oil products was executed.

15 March 2010

PLI introduced PETRONAS Syntium Moto, a range of premium grade synthetic motorcycle engine oils for the Malaysian market. Syntium Moto is formulated with DualTech™ technology with esters that combine power and efficiency.

LOGISTICS & MARITIME

19 August 2009

MISC, through subsidiary MISC International (L) Limited (MISC SPV), entered into a JV agreement with VTTI Tanjung Bin SA (VTTI SPV), a subsidiary of Vitol Tank Terminals International BV (VTTI), part of the leading international energy trading group, Vitol. The purpose of the agreement was to incorporate a JV company, Asia Tank Terminal Limited (ATTL), with the main objective of constructing, commissioning and operating an oil terminal with a base capacity of approximately 841,200 m^3 at Tanjung Bin, Johor, Malaysia.

6 October 2009

MISC's Seri Balqis and Seri Balhaf officially joined the fleet of other world-class LNG vessels that are delivering LNG for the Yemen LNG Project, following the signing of the Protocol of Delivery and Acceptance of the two vessels by MISC and Yemen LNG Co Ltd.

15 October 2009

MISC Agencies Sdn Bhd (MISA), a wholly owned subsidiary of MISC, entered into a joint venture agreement with Al-Hilal Shipping Agency LLC to incorporate a JV company in Dubai for the purpose of carrying on business of acting as sole and exclusive shipping agent for MISC, to carry out shipping agency business and other allied shipping activities, in the United Arab Emirates (UAE).

30 October 2009

MISC took delivery of its eighth chemical tanker, Bunga Akasia. The vessel is the first in a series of eight IMO Type II chemical tankers constructed at the STX shipyard in South Korea. These double-hulled IMO Type II vessels replace MISC's single hulled vessels, which have been sold or chartered out early this year. Sister vessels Bunga Alamanda and Bunga Allium were delivered on 18 December 2009 and 5 January 2010 respectively.

CORPORATE

12 August 2009

PETRONAS announced the successful offering of USD3 billion 5.250% guaranteed notes due 12 August 2019 by PETRONAS Capital Limited and USD1.5 billion of Shari'a compliant Ijara Sukuk Trust Certificates at an annual rental rate of 4.250% due 12 August 2014 by PETRONAS Global Sukuk and priced on 5 August 2009. The offerings were significantly oversubscribed from the original benchmark size guidance and have been fully placed with institutional and accredited investors.

3 November 2009

PETRONAS unveiled its newly developed hybrid technology, the "ENVI Hybrid System" for two-wheeled vehicle application at the 15th Small Engine Technology Conference (SETC) 2009 in Penang. The hybrid system is a drive train technology solely developed by PETRONAS Research engineers.

22 December 2009

PETRONAS announced a five-year deal with major automobile manufacturer, Mercedes, marking a new partnership for the company in Formula One. The agreement makes PETRONAS the title partner to the Mercedes GP team, resulting in the name 'Mercedes GP PETRONAS Formula One'.

9 February 2010

YBhg Tan Sri Mohd Hassan Marican ended his tenure as President and CEO of PETRONAS, having helmed the corporation since 1995, previously serving as Senior Vice President of Finance from 1989. He was given a rousing send-off by PETRONAS staff.

10 February 2010

YBhg Dato' Shamsul Azhar Abbas succeeded as the President & CEO, and Acting Chairman of PETRONAS.

26 March 2010

PETRONAS received a Master Award for Oil and Gas category during the Brand Laureate Awards held in Kuala Lumpur in recognition for its brand excellence amongst the top best brands in Malaysia and the world. The Brand Laureate is awarded to deserving brands from multinationals, public listed and government linked companies that have shown best practices in branding and met the stringent selection criteria of Asia Pacific Brands Foundation (APBF).

CORPORATE SOCIAL RESPONSIBILITY

30 June 2009

PETRONAS formed a partnership with the Federation of Malaysian Consumers Associations (FOMCA) to educate the public on becoming smart consumers through FOMCA's National Consumer Campaign or Kempen Konsumer Kebangsaan (3K). The campaign seeks to nurture good and responsible consumer behaviours, including smart consumption of energy and other resources.

3 October 2009

PETRONAS, through PETRONAS Energy Philippines Inc, initiated a donation drive to provide food, medicines and mineral water to the victims of typhoons Ondoy, Pepeng and Ramil in the Philippines.

20 October 2009

PETRONAS together with the Ministry of Education, Malaysia organised the inaugural Sahabat PPDa-PETRONAS Alumni Awards Ceremony held in Johor Bharu. Initiated through an agreement signed between PETRONAS and the Ministry of Education in 2008, the Sahabat PPDa-PETRONAS programme is an important component of PETRONAS' Corporate Social Responsibility agenda.

21 October 2009

Four outstanding Malaysians from diverse backgrounds were presented with the Merdeka Award 2009 by the Prime Minister of Malaysia and the patron of the Award, YAB Dato' Sri Mohd Najib Bin Tun Abdul Razak, at the Dewan Filharmonik PETRONAS, Kuala Lumpur.

16 November 2009

The Kenali Anak Kita Campaign was launched with the aim of providing parents with proper information on how to identify early stages of behaviour deviations among children and how to guide them away from further problems that may lead to drug abuse.

8 January 2010

PETRONAS contributed RM2 million to the Tabung Kumpulan Wang Simpanan Pelajar Miskin to kick-start the fund's donation drive to provide financial assistance to underprivileged schoolchildren in Malaysia. Set up by the Government in 2003 to aid schoolchildren between seven and 13 years old who come from families with incomes that fall below the poverty line, the fund is a beneficiary of an allocation from the Treasury as well as donations from the public and corporate organisations.

15 January 2010

PETRONAS was awarded the Certificate of Merit in Education by the Government of Vietnam for PETRONAS' significant contribution to the country's education development in 2009. National Economic University, a beneficiary of PETRONAS' English Language programme, nominated PETRONAS for the outstanding quality of its programme module, selection process and educational sessions, which evidently lead to the employment of the graduates by reputable local and international companies.

26 January 2010

PETRONAS Carigali Vietnam Limited was presented with a Certificate of Merit by PetroVietnam's President and CEO Dr Phung Dinh Thuc to acknowledge the efforts and contributions of the company in the development of the country, as well as the support rendered to PetroVietnam over the years.

19 February 2010

Fifty Myanmar trainee technicians who were scheduled to join PETRONAS Carigali Myanmar (HK) Ltd successfully completed a one-year Petroleum Technology Programme conducted by INSTEP. After six months training, the trainees underwent on-the-job training at various facilities at PETRONAS Carigali's Peninsular Malaysia Operations in Kertih, Terengganu.

9 March 2010

UTP signed an MoU with two Norwegian universities, namely University of Bergen and University of Stavanger, to work closer towards common goals - in particular, the pursuit of internationalisation of Education and Research and Development.

11 March 2010

PETRONAS received recognition from the Malaysian Government for the Company's outstanding contributions in the field of corporate social responsibility (CSR) at the Prime Minister's CSR Award 2009. PETRONAS won three awards altogether, comprising Best Overall CSR Programme, Education, and Culture and Heritage.

Glossary

Industry terms as generally understood

- **Additives**
  Chemicals added in small quantities to fuel or lubricants to control engine deposits and improve lubricating performance.

- **Barrels of oil equivalent (boe)**
  A unit of measure to quantify crude oil, condensates and natural gas amounts using the same basis. Natural gas volumes are converted to barrels on the basis of energy content.

- **Base oil**
  An oil to which other oils or additives are added to produce a lubricant. This includes Group III base oil that has been subjected to the highest level of refining of the base oil groups, offering very high viscosity index to produce premium quality lubricants.

- **Basin**
  A low-lying area beneath the Earth's surface accumulated with thick layers of sediment, often a source of valuable hydrocarbons.

- **Brent price**
  The benchmark crude oil price in Europe, as traded on the International Petroleum Exchange in London. Brent Crude refers to a particular grade of crude oil, which is slightly heavier than WTI crude. See 'WTI price'.

- **Coal bed methane**
  A form of natural gas extracted from coal beds, as opposed to more conventional natural gas occurring in reservoirs.

- **Condensates**
  Liquid hydrocarbons produced with natural gas, separated by cooling and other means.

- **Deadweight tonne (dwt)**
  A ship's maximum carrying capacity in tonnes of cargo, including passengers, crew, stores, ballast and fuel.

- **Deepwater**
  In offshore exploration, deepwater is demarcated at water depths exceeding 200 m. Unique methods are required to produce the oil and gas from the ocean bed at such depths. See 'Floating Production Unit'.

- **Development**
  Drilling, construction and related activities following discovery that are necessary to begin production and transportation of crude oil and natural gas.

- **Downstream**
  All segment of value chain that add value to the crude oil and natural gas produced, for example, oil refining, gas processing, gas liquefaction, petrochemical manufacturing, marketing of petroleum and petrochemical products, storage and transportation.

- **Energy Loss Management (ELM)**
  An initiative to improve energy efficiency and reduce greenhouse gas (GHG) emissions.

- **Enhanced oil recovery (EOR)**
  A technique to increase the amount of crude oil and natural gas that can be extracted from an oil and gas field. EOR is also referred to as improved oil recovery or tertiary recovery.

- **Exploration**
  The search for crude oil and/or natural gas by utilising geologic and topographical studies, geophysical and seismic surveys, and drilling of wells.

- **Field**
  A geographical area overlying a hydrocarbons reservoir.

- **Floating Production Unit (FPU)**
  Floating structures of various designs used in deepwater production. These 'floaters' replace traditional offshore shallow water platforms that are able to sit on the ocean bed. See 'Deepwater'.

- **Floating Production, Storage and Offloading (FPSO)**
  A converted or custom-built ship-like structure, with modular facilities to process oil and gas and for temporary storage of the oil prior to transfer to tankers.

- **Gas Processing**
  An activity to turn streams of natural gas into saleable products, in addition to treating gas deposits.

- **Gas to liquids (GTL)**
  A refinery process to convert natural gas or other gaseous hydrocarbons into longer chain hydrocarbons, such as gasoline or diesel fuel. It is used predominantly in the creation of high-quality transportation fuels.

- **Greenhouse gases (GHG)**
  Gases that trap heat in the Earth's atmosphere, e.g. carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

- **High Pressure High Temperature well**
  Well with a surface shut-in pressure greater than 10,000 psi and a bottomhole temperature greater than 150ºC.

- **Integrated oil and gas company**
  A company engaged in all aspects of the oil and gas industry - exploring for and producing crude oil and natural gas (upstream); refining, marketing and transporting crude oil, natural gas and refined products (downstream); as well as manufacturing and distributing petrochemicals.

- **Ionic liquids**
  Liquids that consist entirely of positive and negatively charged ions. Ionic liquids are being explored for an array of applications, e.g. as environmentally friendly substitutes for volatile organic compounds in the oil and gas industry.

- **Liquefied natural gas (LNG)**
  Natural gas that is liquefied under extremely cold temperatures of about minus 260 degrees Fahrenheit to facilitate storage or transportation in specially designed vessels.

- **Liquefied petroleum gas (LPG)**
  Light gases, such as butane and propane that can be maintained as liquids while under pressure.

- **Lubricant**
  A substance to reduce friction and wear among moving surfaces, resulting in improved efficiency. It contains about 90% base oil and about 10% additives.

- **Natural gas**
  A clean burning, odourless, colourless, highly compressible mixture of hydrocarbons occurring naturally in gaseous form. Natural gas is primarily comprised of methane but can also include ethane, propane and butane.

- **Operational Performance Improvement (OPI)**
  A set of tools and methodologies that emphasise on instilling operational discipline, with the aim of improving operational excellence of PETRONAS' producing assets.

- **Peninsular Gas Utilisation (PGU)**
  The PGU system was developed to spearhead the use of natural gas in Malaysia. The natural gas produced from offshore Terengganu is processed in six Gas Processing Plants in Kertih and are then fed into a 2,505 km pipeline system that delivers supplies to the power, industrial, petrochemical and other sectors throughout the Peninsular.

- **Petrochemicals**
  Organic and inorganic compounds and mixtures derived from petroleum, used principally for the manufacture of chemicals, plastics and resins, synthetic fibres, detergents, adhesives and synthetic motor oils.

- **Production sharing contract (PSC)**
  A contractual agreement between a company and a host government, whereby the company bears all exploration, development and production costs in return for an agreed-upon share of production.

- **Renewable energy**
  Energy derived from natural sources that are replaceable.

- **Reserves Replacement Ratio (RRR)**
  The ratio of new reserves discovered to volume of production, an indication of a company's track record in maintaining a stable reserve of oil and gas.

- **Reserves**
  Crude oil or natural gas contained in underground rock formations called reservoirs. Proved reserves are the estimated quantities that can be produced with reasonable certainty, according to geologic and engineering data from known reservoirs under existing economic and operating conditions. Estimates change as additional information becomes available. Figures reported are reserves estimated based on 2P+2C which is according to PETRONAS definitions and guidelines for classification of petroleum reserves.

- **Refining**
  A purification process for natural resources, which include hydrocarbons, using distillation, cooling and/or compression.

- **Reservoir**
  A subsurface pool of hydrocarbons predominantly trapped in porous or fractured rock formations.

- **Seismic data**
  Visual rendering of the sub-surface geology of an area composed by reflecting sound waves off underground strata; useful in determining the possible existence of hydrocarbons.

- **Throughput**
  The amount of output that is produced by a system, e.g. a refinery, plant, or pipeline, in a given period of time.

- **Upstream**
  Segment of value chain pertaining to finding and producing crude oil and natural gas. These include oil and gas exploration, development and production operations; also known as Exploration and Production (E&P).

- **WTI price**
  Stands for West Texas Intermediate, the benchmark crude oil price in the US measured in USD per barrel, which refers to a type of high quality, light in gravity crude oil.

Financial Statements

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2010

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 March 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Company in the course of the financial year remained unchanged and consist of exploitation of oil and gas through production sharing contracts, the marketing of petroleum and petroleum products and investment holding. The principal activities of significant subsidiaries, associates and jointly controlled entities are stated in note 45, note 46 and note 47 to the financial statements respectively.

RESULTS

	Group RM Mil	Company RM Mil
Profit for the year	45,489	29,162
Attributable to:		
Shareholders of the Company	40,286	29,162
Minority interest	5,203	-

DIVIDENDS

During the financial year, the Company:

(i) paid a second tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM60,000 per ordinary share amounting to RM6 billion in respect of the financial year ended 31 March 2009;

(ii) paid a tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM100,000 per ordinary share amounting to RM10 billion in respect of the financial year ended 31 March 2009;

(iii) paid a first tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM60,000 per ordinary share amounting to RM6 billion in respect of the financial year ended 31 March 2010;

(iv) paid a second tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM80,000 per ordinary share amounting to RM8 billion in respect of the financial year ended 31 March 2010; and

(v) declared a third tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM60,000 per ordinary share amounting to RM6 billion in respect of the financial year ended 31 March 2010. The dividend was fully paid in two instalments on 23 April 2010 and 30 April 2010.

The Directors propose a tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM100,000 per ordinary share amounting to RM10 billion in respect of the financial year ended 31 March 2010 for shareholders' approval at the forthcoming Annual General Meeting.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 March 2011.

Subsequent to the end of the current financial year, the Company declared a first tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM60,000 per ordinary share amounting to RM6 billion in respect of the financial year ending 31 March 2011. The dividend will be paid and accounted for in equity as an appropriation of retained profits in the financial year ending 31 March 2011.

RESERVES AND PROVISIONS

There were no material movements to and from reserves and provisions during the year other than as disclosed in the financial statements.

DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

Directors	**Alternates**
Dato' Shamsul Azhar bin Abbas (Acting Chairman, President and CEO; appointed on 10.2.2010)	
Datuk Anuar bin Ahmad (Executive Vice President)	
Tan Sri Dr Wan Abdul Aziz bin Wan Abdullah	Dato' Siti Halimah binti Ismail (appointed as alternate director on 26.5.2010) Datuk Aziyah binti Bahauddin (ceased as alternate director on 3.10.2009)
Datuk Wan Zulkiflee bin Wan Ariffin (Executive Vice President)	
Abdul Kadir bin Md Kassim	
Mohd Omar bin Mustapha (appointed on 15.9.2009)	
Tan Sri Dato' Seri Hj Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas (appointed on 28.4.2010)	
Dato' Muhammad bin Ibrahim (appointed on 28.4.2010)	
Dato' Mohamad Idris bin Mansor (appointed on 28.4.2010)	
Datin Yap Siew Bee (appointed on 28.4.2010)	
Krishnan C K Menon (appointed on 28.4.2010)	
Datuk Manharlal Ratilal (Executive Vice President; appointed on 1.5.2010)	
Dato' Wee Yiaw Hin @ Ong Yiaw Hin (Executive Vice President; appointed on 1.5.2010)	
Datuk Nasarudin bin Md Idris (Vice President; resigned on 19.5.2010)	
Dato' Noriyah binti Ahmad (appointed on 22.10.2009; resigned on 28.4.2010)	Dr Rosli bin Mohamed (appointed on 22.10.2009; ceased as alternate director on 28.4.2010)
Datuk Shukry bin Mohd Salleh (appointed on 27.1.2010; resigned on 28.4.2010)	
Tan Sri Mohd Hassan bin Marican (resigned on 10.2.2010)	
Tan Sri Khalid bin Ramli (resigned on 24.9.2009)	
Tan Sri Dr Sulaiman bin Mahbob (resigned on 24.6.2009)	Dr Rosli bin Mohamed (ceased as alternate director on 24.6.2009)

None of the Directors are required to retire by rotation in accordance with Article 71(1) of the Company's Articles of Association.

In accordance with Article 71(2) of the Company's Articles of Association, the Chairman, President, Executive Vice Presidents and Vice President shall not be subject to retirement by rotation except in the first year of appointment where they are required to retire in accordance with Article 68.

In accordance with Article 68 of the Company's Articles of Association, Dato' Shamsul Azhar bin Abbas, Mohd Omar bin Mustapha, Tan Sri Dato' Seri Hj Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas, Dato' Muhammad bin Ibrahim, Dato' Mohamad Idris bin Mansor, Datin Yap Siew Bee, Krishnan C K Menon, Datuk Manharlal Ratilal and Dato' Wee Yiaw Hin @ Ong Yiaw Hin who were appointed during the year retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Pursuant to Section 129(6) of the Companies Act 1965, Abdul Kadir bin Md Kassim, having attained the age of 70 years, is required to be re-appointed as director of the Company by way of a resolution passed by a majority of not less than three-fourths of those present and voting at the forthcoming Annual General Meeting. Abdul Kadir bin Md Kassim does not offer himself for re-appointment.

DIRECTORS' INTERESTS

The Directors in office at the end of the year who have interests in the shares of the Company's related corporations other than wholly owned subsidiaries as recorded in the Register of Directors' Shareholdings are as follows:

	Number of shares in PETRONAS Dagangan Berhad			
Name	**Balance at 1.4.2009**	**Bought**	**Sold**	**Balance at 31.3.2010**
Datuk Anuar bin Ahmad	2,000	-	-	2,000

	Number of shares in PETRONAS Gas Berhad			
Name	**Balance at 1.4.2009**	**Bought**	**Sold**	**Balance at 31.3.2010**
Datuk Nasarudin bin Md Idris	3,000	-	-	3,000

	Number of shares in KLCC Property Holdings Berhad			
Name	**Balance at 1.4.2009**	**Bought**	**Sold**	**Balance at 31.3.2010**
Datuk Nasarudin bin Md Idris	5,000	-	-	5,000

None of the other Directors holding office at 31 March 2010 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements), by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than legal fees of RM1,239,810 (2009: RM420,476) and RM413,365 (2009: RMNil) paid/payable by the Group and the Company respectively to a firm in which a Director is a partner.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

ISSUE OF SHARES

There were no changes in the issued and paid up capital of the Company during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

(i) all known bad debts have been written off and adequate provision made for doubtful debts, and

(ii) any current assets which were unlikely to realise, in the ordinary course of business, their values as shown in the accounting records of the Group and of the Company, had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or

(ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

(iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

(ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 March 2010 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, Messrs KPMG Desa Megat & Co, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors
in accordance with a resolution of the Directors:

....
Dato' Shamsul Azhar bin Abbas

....
Datuk Anuar bin Ahmad

Kuala Lumpur,
Date: 26 May 2010

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 92 to 200, are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 March 2010 and of the results of their operations and cash flows for the year ended on that date.

Signed on behalf of the Board of Directors
in accordance with a resolution of the Directors:

Dato' Shamsul Azhar bin Abbas

Datuk Anuar bin Ahmad

Kuala Lumpur,

Date: 26 May 2010

STATUTORY DECLARATION

I, **Datuk Manharlal Ratilal**, the Director primarily responsible for the financial management of **PETROLIAM NASIONAL BERHAD**, do solemnly and sincerely declare that the financial statements set out on pages 92 to 200, are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed
Datuk Manharlal Ratilal at **Kuala Lumpur** in
Wilayah Persekutuan on 26 May 2010.

BEFORE ME:

PESURUHJAYA SUMPAH
No: W 398
Name: ZULKIFLY BIN ABDULLAH
MALAYSIA

Lot 2.42, Tingkat 2, The Mall
100, Jalan Putra
50350 Kuala Lumpur, Malaysia
H/P: 019-283 9000

CONSOLIDATED BALANCE SHEET AT 31 MARCH 2010

	Note	2010 RM Mil	2009 RM Mil (Restated)
ASSETS			
Property, plant and equipment	3	**179,648**	161,948
Properties	4	**7,768**	7,369
Investment properties	5	**8,790**	8,558
Land held for development	6	**1,690**	1,767
Prepaid lease payments	7	**2,619**	2,241
Investments in associates	9	**5,321**	5,912
Investments in jointly controlled entities	10	**3,051**	3,716
Intangible assets	11	**16,922**	17,012
Long term receivables	12	**3,150**	2,811
Fund and other investments	13	**17,268**	10,571
Deferred tax assets	15	**3,431**	2,419
Cash and cash equivalents	17	**288**	416
TOTAL NON-CURRENT ASSETS		**249,946**	224,740
Property development costs	18	**473**	923
Trade and other inventories	19	**8,565**	6,290
Trade and other receivables	20	**27,985**	26,001
Tax recoverable		**358**	594
Assets classified as held for sale	21	**40**	170
Fund and other investments	13	**19,681**	40,338
Cash and cash equivalents	17	**103,837**	90,731
TOTAL CURRENT ASSETS		**160,939**	165,047
TOTAL ASSETS		**410,885**	389,787
EQUITY			
Share capital	22	**100**	100
Reserves	23	**242,802**	231,983
Total equity attributable to shareholders of the Company		**242,902**	232,083
Minority shareholders' interests	24	**24,972**	25,006
TOTAL EQUITY		**267,874**	257,089
LIABILITIES			
Borrowings	25	**48,788**	35,491
Deferred tax liabilities	15	**12,485**	10,654
Other long term liabilities and provisions	27	**25,782**	22,566
TOTAL NON-CURRENT LIABILITIES		**87,055**	68,711
Trade and other payables	28	**32,387**	29,344
Borrowings	25	**3,082**	8,455
Taxation		**14,487**	20,188
Dividend payable		**6,000**	6,000
TOTAL CURRENT LIABILITIES		**55,956**	63,987
TOTAL LIABILITIES		**143,011**	132,698
TOTAL EQUITY AND LIABILITIES		**410,885**	389,787

The notes set out on pages 103 to 200 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 RM Mil	2009 RM Mil
Revenue		**216,411**	264,175
Cost of revenue		**(134,061)**	(157,534)
Gross profit	29	**82,350**	106,641
Selling and distribution expenses		**(4,249)**	(3,744)
Administration expenses		**(10,145)**	(11,334)
Other expenses		**(4,157)**	(4,003)
Other income		**4,556**	4,010
Operating profit	30	**68,355**	91,570
Financing costs		**(2,526)**	(3,445)
Share of profit after tax and minority interest of equity accounted associates and jointly controlled entities		**1,471**	1,014
Profit before taxation		**67,300**	89,139
Tax expense	32	**(21,811)**	(30,075)
PROFIT FOR THE YEAR		**45,489**	59,064
Attributable to:			
Shareholders of the Company		**40,286**	52,546
Minority interest		**5,203**	6,518
PROFIT FOR THE YEAR		**45,489**	59,064

The notes set out on pages 103 to 200 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010

		Attributable to shareholders of the Company			
		<---------- Non-distributable --------->			
	Note	**Share Capital RM Mil**	**Capital Reserves RM Mil**	**Foreign Currency Translation Reserve RM Mil**	**Available-for-sale Reserve RM Mil**
Balance at 1 April 2008		100	13,332	(11,013)	3,753
Net movements from exchange differences		-	-	9,517	-
Changes in fair value of available-for-sale financial assets, net of tax		-	-	-	(5,676)
Net income/(expense) recognised directly in equity		-	-	9,517	(5,676)
Profit for the year		-	-	-	-
Total recognised income/(expense) for the year		-	-	9,517	(5,676)
Share of reserves of associates and jointly controlled entities		-	(34)	-	-
Transfer to capital reserves		-	2	-	-
Additional equity interest in a subsidiary		-	-	-	-
Dividends	33	-	-	-	-
Balance at 31 March 2009		100	13,300	(1,496)	(1,923)

continue to next page

The notes set out on pages 103 to 200 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010 (continued)

		Attributable to shareholders of the Company				
		<---------------- Distributable --------------->				
	Note	**General Reserve RM Mil**	**Retained Profits RM Mil**	**Total RM Mil**	**Minority Interest RM Mil**	**Total Equity RM Mil**
Balance at 1 April 2008		12,000	187,558	205,730	22,625	228,355
Net movements from exchange differences		-	-	9,517	1,576	11,093
Changes in fair value of available-for-sale financial assets, net of tax		-	-	(5,676)	29	(5,647)
Net income/(expense) recognised directly in equity		-	-	3,841	1,605	5,446
Profit for the year		-	52,546	52,546	6,518	59,064
Total recognised income/(expense) for the year		-	52,546	56,387	8,123	64,510
Share of reserves of associates and jointly controlled entities		-	-	(34)	-	(34)
Transfer to capital reserves		-	(2)	-	-	-
Additional equity interest in a subsidiary		-	-	-	(31)	(31)
Dividends	33	-	(30,000)	(30,000)	(5,711)	(35,711)
Balance at 31 March 2009		12,000	210,102	232,083	25,006	257,089

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The notes set out on pages 103 to 200 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010 (continued)

		<- Attributable to shareholders of the Company -->			
		<------------------ Non-distributable ---------------->			
	Note	**Share Capital RM Mil**	**Capital Reserves RM Mil**	**Foreign Currency Translation Reserve RM Mil**	**Available-for-sale Reserve RM Mil**
Balance at 1 April 2009		100	13,300	(1,496)	(1,923)
Net movements from exchange differences		-	-	(6,016)	-
Changes in fair value of available-for-sale financial assets, net of tax		-	-	-	6,489
Net (expense)/income recognised directly in equity		-	-	(6,016)	6,489
Profit for the year		-	-	-	-
Total recognised (expense)/income for the year		-	-	(6,016)	6,489
Share of reserves of associates and jointly controlled entities		-	60	-	-
Transfer to capital reserves		-	49	-	-
Redemption of preference shares		-	1	-	-
Additional issuance of shares to minority interest		-	-	-	-
Additional equity interest in a subsidiary		-	-	-	-
Dividends	33	-	-	-	-
Balance at 31 March 2010		100	13,410	(7,512)	4,566

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The notes set out on pages 103 to 200 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010 (continued)

		Attributable to shareholders of the Company				
		<--------------- Distributable ------------>				
	Note	**General Reserve RM Mil**	**Retained Profits RM Mil**	**Total RM Mil**	**Minority Interest RM Mil**	**Total Equity RM Mil**
Balance at 1 April 2009		12,000	210,102	232,083	25,006	257,089
Net movements from exchange differences		-	-	(6,016)	(1,506)	(7,522)
Changes in fair value of available-for-sale financial assets, net of tax		-	-	6,489	(15)	6,474
Net (expense)/income recognised directly in equity		-	-	473	(1,521)	(1,048)
Profit for the year		-	40,286	40,286	5,203	45,489
Total recognised (expense)/ income for the year		-	40,286	40,759	3,682	44,441
Share of reserves of associates and jointly controlled entities		-	-	60	-	60
Transfer to capital reserves		-	(49)	-	-	-
Redemption of preference shares		-	(1)	-	(17)	(17)
Additional issuance of shares to minority interest		-	-	-	1,955	1,955
Additional equity interest in a subsidiary		-	-	-	(371)	(371)
Dividends	33	-	(30,000)	(30,000)	(5,283)	(35,283)
Balance at 31 March 2010		12,000	220,338	242,902	24,972	267,874

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The notes set out on pages 103 to 200 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 RM Mil	2009 RM Mil (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		**210,903**	265,851
Cash paid to suppliers and employees		**(128,944)**	(141,535)
		81,959	124,316
Interest income from fund and other investments		**1,894**	3,257
Interest expenses paid		**(2,080)**	(2,504)
Taxation paid		**(25,672)**	(30,015)
Net cash generated from operating activities		**56,101**	95,054
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash used in investing activities	34	**(23,284)**	(48,847)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	35	**(21,429)**	(33,982)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**11,388**	12,225
DECREASE/(INCREASE) IN DEPOSITS RESTRICTED		**42**	(11)
NET FOREIGN EXCHANGE DIFFERENCES		**(2,502)**	1,900
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**94,775**	80,661
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**103,703**	94,775
CASH AND CASH EQUIVALENTS			
Cash and bank balances and deposits	17	**104,125**	91,147
Negotiable certificate of deposits	13	**630**	4,571
Bank overdrafts	25	**(307)**	(155)
		104,448	95,563
Less: Deposits restricted	17	**(745)**	(788)
		103,703	94,775

The notes set out on pages 103 to 200 are an integral part of these financial statements.

BALANCE SHEET AT 31 MARCH 2010

	Note	2010 RM Mil	2009 RM Mil (Restated)
ASSETS			
Property, plant and equipment	3	**3,858**	1,932
Prepaid lease payments	7	**92**	68
Investments in subsidiaries	8	**34,418**	28,942
Investments in associates	9	**839**	1,038
Investments in jointly controlled entities	10	**1,402**	1,904
Long term receivables	12	**74,295**	67,803
Fund and other investments	13	**76**	76
Deferred tax assets	15	**1,785**	1,416
TOTAL NON-CURRENT ASSETS		**116,765**	103,179
Trade and other inventories	19	**42**	34
Trade and other receivables	20	**14,861**	10,949
Fund and other investments	13	**20,492**	41,065
Cash and cash equivalents	17	**56,677**	45,597
TOTAL CURRENT ASSETS		**92,072**	97,645
TOTAL ASSETS		**208,837**	200,824
EQUITY			
Share capital	22	**100**	100
Reserves	23	**136,460**	137,130
TOTAL EQUITY		**136,560**	137,230
LIABILITIES			
Borrowings	25	**28,621**	15,575
Other long term liabilities and provisions	27	**22,580**	19,610
TOTAL NON-CURRENT LIABILITIES		**51,201**	35,185
Trade and other payables	28	**5,254**	4,516
Borrowings	25	**-**	3,617
Taxation		**9,822**	14,276
Dividend payable		**6,000**	6,000
TOTAL CURRENT LIABILITIES		**21,076**	28,409
TOTAL LIABILITIES		**72,277**	63,594
TOTAL EQUITY AND LIABILITIES		**208,837**	200,824

The notes set out on pages 103 to 200 are an integral part of these financial statements.

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 RM Mil	2009 RM Mil
Revenue		**83,402**	115,348
Cost of revenue		**(37,996)**	(48,238)
Gross profit	29	**45,406**	67,110
Selling and distribution expenses		**(368)**	(392)
Administration expenses		**(3,659)**	(2,623)
Other expenses		**(5,191)**	(2,528)
Other income		**4,893**	8,777
Operating profit	30	**41,081**	70,344
Financing costs		**(950)**	(1,325)
Profit before taxation		**40,131**	69,019
Tax expense	32	**(10,969)**	(19,183)
PROFIT FOR THE YEAR		**29,162**	49,836

The notes set out on pages 103 to 200 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010

	Note	<-------Non-distributable------>		<-------Distributable------->		
	Note	Share Capital RM Mil	Available-for-sale Reserve RM Mil	General Reserve RM Mil	Retained Profits RM Mil	Total Equity RM Mil
Balance at 1 April 2008		100	10	12,000	105,306	117,416
Changes in fair value of available-for-sale financial assets net of tax, representing net expense recognised directly in equity		-	(22)	-	-	(22)
Profit for the year		-	-	-	49,836	49,836
Total recognised (expense)/ income for the year		-	(22)	-	49,836	49,814
Dividends	33	-	-	-	(30,000)	(30,000)
Balance at 31 March 2009		100	(12)	12,000	125,142	137,230
Balance at 1 April 2009		100	(12)	12,000	125,142	137,230
Changes in fair value of available-for-sale financial assets net of tax, representing net income recognised directly in equity		-	168	-	-	168
Profit for the year		-	-	-	29,162	29,162
Total recognised income for the year		-	168	-	29,162	29,330
Dividends	33	-	-	-	(30,000)	(30,000)
Balance at 31 March 2010		100	156	12,000	124,304	136,560

The notes set out on pages 103 to 200 are an integral part of these financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 RM Mil	2009 RM Mil (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		**66,828**	102,564
Cash paid to suppliers and employees		**(42,416)**	(47,621)
		24,412	54,943
Interest income from fund and other investments		**2,259**	3,083
Interest expenses paid		**(681)**	(30)
Taxation paid		**(15,345)**	(15,266)
Net cash generated from operating activities		**10,645**	42,730
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash generated from/(used in) investing activities	34	**11,094**	(8,523)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	35	**(14,307)**	(30,616)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**7,432**	3,591
NET FOREIGN EXCHANGE DIFFERENCES		**(293)**	293
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**50,168**	46,284
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**57,307**	50,168
CASH AND CASH EQUIVALENTS			
Cash and bank balances and deposits	17	**56,677**	45,597
Negotiable certificate of deposits	13	**630**	4,571
		57,307	50,168

The notes set out on pages 103 to 200 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010

1. BASIS OF PREPARATION

1.1 Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards (FRSs), generally accepted accounting principles and the Companies Act, 1965 in Malaysia.

As of 1 April 2009, the Group and the Company have early adopted the following FRS and Statement of Interpretation which are effective for annual periods beginning on or after 1 January 2010:

(i) FRS 7, *Financial Instruments: Disclosures;* and

(ii) IC Interpretation 13, *Customer Loyalty Programme*.

FRS 7 replaced the disclosure requirements previously contained in FRS 132, *Financial Instruments*: *Presentation*. With the adoption of FRS 7, the Group and the Company disclosed extended information about their financial instruments and the nature and extent of risks to which they give rise as set out in note 41. More specifically, the Group and the Company made specific disclosures about market risk, credit risk and liquidity risk. There was no effect on the Group and the Company's reported income or net assets as a result of adoption of this new standard.

The adoption of IC Interpretation 13 which was early adopted by a subsidiary has no significant impact on these financial statements.

The Group and the Company have also early adopted FRS 139, *Financial Instruments: Recognition and Measurement* in the previous financial year.

The Malaysian Accounting Standards Board ("MASB") has issued new pronouncements comprising FRSs, Statement of Interpretations, and Amendments to FRSs and Statement of Interpretations, which are not yet effective for the Group and the Company. These pronouncements including their impact on the financial statements in the period of initial application are set out in note 43. New pronouncements that are not relevant to the operations of the Group and the Company are set out in Note 44.

The financial statements were approved and authorised for issue by the Board of Directors on 26 May 2010.

1.2 Basis of measurement

The financial statements of the Group and the Company have been prepared on the historical cost basis except that, as disclosed in the accounting policies below, certain items are measured at fair value.

1.3 Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Group and the Company's financial statements are presented in Ringgit Malaysia, which is also the Company's functional currency.

1.4 Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

(i) Note 3 : Property, Plant and Equipment;

(ii) Note 11 : Intangible Assets;

(iii) Note 15 : Deferred Tax;

(iv) Note 16 : Retirement Benefits;

(v) Note 27 : Other Long Term Liabilities and Provisions; and

(vi) Note 41 : Financial Instruments.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, unless otherwise stated.

2.1 Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All inter-company transactions are eliminated on consolidation and revenue and profits relate to external transactions only. Unrealised losses resulting from intercompany transactions are also eliminated unless cost cannot be recovered.

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.

The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in income statement.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

2.2 Associates

Associates are entities in which the Group has significant influence including representation on the Board of Directors, but not control or joint control, over the financial and operating policies of the investee company.

Associates are accounted for in the consolidated financial statements using the equity method. The consolidated financial statements include the Group's share of post-acquisition profits or losses of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

The Group's share of post-acquisition reserves and retained profits less losses is added to the carrying value of the investment in the consolidated balance sheet. These amounts are taken from the latest audited financial statements or management financial statements of the associates.

When the Group's share of post-acquisition losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Unrealised profits arising from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially, unless cost cannot be recovered.

2.3 Jointly controlled entities

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investments in jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting as described in note 2.2.

2.4 Property, plant and equipment and depreciation

Freehold land is stated at cost and is not depreciated. Projects-in-progress is stated at cost less accumulated impairment losses, if any, and is not depreciated. Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the costs of materials and direct labour, any other costs directly attributable to bringing the assets to working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The net book value of the replaced item of property, plant and equipment is derecognised with any corresponding gain or loss recognised in the income statement accordingly. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is reclassified as investment property at cost.

When the use of a property changes from owner-occupied to investment property, the property is reclassified as investment property at cost.

Depreciation for property, plant and equipment other than freehold land, oil and gas properties and projects-in-progress, is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Property, plant and equipment are not depreciated until the assets are ready for their intended use.

Depreciation of producing oil and gas properties is computed based on the unit of production method using total proved reserves for capitalised acquisition costs and total proved and probable developed reserves for capitalised exploration and development costs.

Lease properties are depreciated over the lease term or the estimated useful lives, whichever is shorter.

The estimated useful lives of the other property, plant and equipment are as follows:

Buildings	14 - 50 years
Plant	3 - 67 years
Expendable capital improvements	3 years
Office equipment, furniture and fittings	5 - 10 years
Other plant and equipment	3 - 50 years
Computer software and hardware	5 years
Motor vehicles	3 - 5 years
Vessels	25 - 40 years

Estimates in respect of certain items of property, plant and equipment were revised during the year (refer note 3).

Property, plant and equipment individually costing less than RM5,000 are expensed off in the year of purchase.

The depreciable amount is determined after deducting residual value. The residual value, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, period and method of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the income statement.

2.5 Investment properties

Investment properties are properties which are owned either to earn rental income or for capital appreciation or for both. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

Freehold land and land improvements are stated at cost and are not depreciated. Other investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, consistent with the accounting policy for property, plant and equipment as stated in note 2.4.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of 10 to 50 years for buildings.

2.6 Land held for property development and property development costs

(i) Land held for property development

Land held for property development consists of land or such portions thereof on which no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle. Such land is classified as non-current asset and is stated at cost less accumulated impairment losses, if any. Cost includes acquisition cost of land and attributable development expenditure.

Cost associated with the acquisition of land includes the purchase price of the land, professional fees, stamp duties, commissions, conversion fees and other relevant levies. Where the Group had previously recorded the land at revalued amount, it continues to retain this amount as its surrogate costs as allowed by FRS $201_{2004,}$ *Property Development Activities*.

Land held for property development is reclassified as property development costs at the point when development activities have commenced and where it can be demonstrated that the development activities can be completed within the normal operating cycle.

(ii) Property development costs

Property development costs comprise costs associated with the acquisition of land, all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities and interest expenses incurred during the period of active development.

Property development cost not recognised as an expense is recognised as an asset and is stated at the lower of cost and net realisable value.

2.7 Leased assets

(i) Finance lease

A lease is recognised as a finance lease if it transfers substantially to the Group and the Company all the risks and rewards incidental to ownership. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is included in the balance sheet as borrowings.

Minimum lease payments made under finance leases are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period.

Contingent lease payments, if any, are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(ii) Operating lease

All leases that do not transfer substantially to the Group and the Company all the risks and rewards incidental to ownership are classified as operating leases.

Payments made under operating leases are recognised as an expense in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(iii) Prepaid lease payments

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

Leasehold land is classified into long lease and short lease. Long lease is defined as a lease with an unexpired lease period of fifty years or more. Short lease is defined as a lease with an unexpired lease period of less than fifty years.

2.8 Investments

Long term investments in subsidiaries, associates and jointly controlled entities are stated at cost less impairment loss, if any, in the Company's financial statements.

The carrying amount of these investments includes fair value adjustments on shareholder's loans and advances, if any (note 2.12(i)).

2.9 Intangible assets

(i) Goodwill

Goodwill arising from acquisitions represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities and contingent liabilities of the acquiree.

When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Goodwill is initially measured at cost. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is reviewed for impairment when there is objective evidence of impairment.

(ii) Exploration expenditure

Intangible assets also include expenditure on the exploration for and evaluation of oil and natural gas resources (hereinafter collectively referred to as "exploration expenditure"). The accounting policy for exploration expenditure is described separately in note 2.10.

(iii) Other intangible assets

Intangible assets other than goodwill and exploration expenditure are measured on initial recognition at cost. The costs of intangible assets acquired in a business combination are their fair values as at the date of acquisition.

Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is recognised in the income statement on a straight line basis over the estimated economic useful lives, other than certain recoverable expenditure which is amortised based on actual costs recovered. The amortisation method and the useful life for intangible assets are reviewed at least at each balance sheet date. Intangible assets are assessed for impairment whenever there is an indication that the intangible assets may be impaired.

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. These intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.10 Exploration and development expenditure

The Group follows the successful efforts method of accounting for the exploration and development expenditure.

(i) Exploration expenditure

Costs directly associated with an exploration well, including license acquisition and drilling costs, are initially capitalised as intangible assets until the results have been evaluated.

If a well does not result in successful discovery of economically recoverable volume of hydrocarbons, such costs are written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity which may include the drilling of further wells, are likely to be capable of commercial development under prevailing economic conditions, the costs continue to be carried as intangible assets. All such carried costs are reviewed at least once a year to determine whether the reserves found or appraised remain economically viable. When this is no longer the case, the costs are written off.

Where development plan is commercially viable and approved by the relevant authorities, the related exploration and evaluation costs are transferred to projects-in-progress in property, plant and equipment.

(ii) Development expenditure

Development expenditure comprises all costs incurred in bringing a field to commercial production and is capitalised as incurred. The amount capitalised includes attributable interests and other financing costs incurred on significant exploration and development before commencement of production.

Upon commencement of production, the exploration and development expenditure initially capitalised as projects-in-progress are transferred to oil and gas properties, and are depreciated as described in the accounting policy for property, plant and equipment (note 2.4).

2.11 Non-current assets held for sale

Non-current assets and disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Immediately before classification as held for sale, the assets (or all the assets and liabilities in a disposal group) are remeasured in accordance with the Group's applicable accounting policies. Thereafter, on initial classification as held for sale, the assets or disposal groups are measured at the lower of carrying amount and fair value less cost to sell. Any differences are charged to the income statement.

Property, plant and equipment and investment properties once classified as held for sale are not depreciated.

2.12 Non-derivative financial instruments

(i) Financial assets

Initial recognition

Financial assets within the scope of FRS 139 *Financial Instruments: Recognition and Measurement* are classified as loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss, held-to-maturity investments or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group and the Company determine the classification of financial assets at initial recognition.

Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, any directly attributable transaction costs.

Purchases or sales that require delivery of financial assets within a timeframe established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date i.e. the date that the Group and the Company commit to purchase or sell the financial asset.

Fair value adjustments on shareholder's loans and advances at initial recognition, if any, are added to the carrying value of investments in the Company's financial statements.

The Group's and the Company's financial assets include cash and cash equivalents, trade and other receivables, loans and advances, investments and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group and the Company, including separated embedded derivatives, unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement. The methods used to measure fair values are stated in note 2.12(v).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, such financial assets are carried at amortised cost, using the effective interest rate method (note 2.12(vi)), less impairment losses.

Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group and the Company have positive intention and ability to hold the assets to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method less impairment losses. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

The Group and the Company did not have any held-to-maturity investments during the years ended 31 March 2010.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Subsequent to initial recognition, such financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognised in the income statement.

(ii) **Financial liabilities**

Initial recognition

Financial liabilities within the scope of FRS 139 *Financial Instruments: Recognition and Measurement* are classified as loans and borrowings, financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group and the Company determine the classification of financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value less, in the case of loans and borrowings, any directly attributable transaction costs.

The Group's and the Company's financial liabilities include trade and other payables, loans and borrowings, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group and the Company that do not meet the hedge accounting criteria as defined by FRS 139.

Financial liabilities at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognised in the income statement.

Loans and borrowings

Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

(iii) **Financial guarantee contracts**

Financial guarantee contracts issued by the Group and the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount recognised less cumulative amortisation.

Financial guarantee contracts are amortised on a straight-line basis over the contractual period of the debt instrument. Where the guarantee does not have a specific period, the guarantee will only be recognised in the income statement when the underlying facilities are withdrawn.

(iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

(v) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. Where fair value cannot be reliably estimated, assets are carried at cost less impairment losses.

(vi) Amortised cost of financial instruments

Amortised cost is computed using the effective interest rate method. This method uses effective interest rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial instrument. Amortised cost takes into account any transaction costs and any discount or premium on settlement.

(vii) Derecognition of financial instruments

Financial assets

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or, the Group and the Company have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement without retaining control of the asset or substantially all the risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the income statement.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

2.13 Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group and the Company use derivative financial instruments such as interest rate and foreign currency swaps, forward rate contracts, futures and options, to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the income statement.

In general, contracts to sell or purchase non-financial items to meet expected own use requirements are not accounted for as financial instruments. However, contracts to sell or purchase commodities that can be net settled or which contain written options are required to be recognised at fair value, with gains and losses taken to the income statement.

Hedge accounting

For the purpose of hedge accounting, hedges are classified as:
- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- cash flow hedges when hedging exposure to variability in cash flows to be received or paid relating to a recognised asset or liability or a highly probable forecasted transaction; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group and the Company formally designates and documents all relationships between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking hedge transactions. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges meeting the criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity until the hedged transaction occurs, while the ineffective portion is recognised in the income statement.

Where the hedged item is a non-financial asset or liability, the amount taken to equity is transferred to the initial carrying amount of the asset or liability. For other hedged item, the amount in equity is recognised in the income statement when the hedged transaction affects profit or loss.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above. If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement.

Fair value hedges

A change in the fair value of a hedging instrument designated as a fair value hedge, is taken to the income statement, together with the consequential adjustment to the carrying amount of the hedged item.

For fair value hedges relating to items carried at amortised cost, the adjustment to the carrying value of the hedged item is amortised through the income statement over the remaining term to maturity. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the income statement.

Hedges of a net investment in a foreign operation

For hedges of a net investment in a foreign operation, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the foreign operation is sold or partially disposed.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contract. Contracts are assessed for embedded derivatives when the Group or the Company becomes a party to them, including at the date of a business combination.

Embedded derivatives are measured at fair value at each balance sheet date. Any gains or losses arising from changes in fair value are taken directly to the income statement.

2.14 Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Loans and receivables

For loans and receivables carried at amortised cost, individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

Available-for-sale financial investments

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount comprising the difference between its cost and its fair value is transferred from equity to the income statement.

If, in a subsequent period, the fair value of an available for sale financial investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, with the amount of the reversal recognised in income statement.

Impairment losses recognised in income statement for an investment in an equity instrument classified as available for sale is not to be reversed through income statement.

(ii) Non-financial assets

The carrying amounts of assets, other than inventories, property development costs, deferred tax assets and financial assets (financial assets in this context exclude investments in subsidiaries, associates and jointly controlled entities), are reviewed at each balance sheet date to determine whether there is any indication of impairment. For certain classes of assets, the carrying amounts are reviewed more frequently if events or changes in circumstances indicate that the carrying value may be impaired, as described in the respective assets' accounting policies.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

A cash-generating-unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. An impairment loss recognised in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed in a subsequent period. In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

2.15 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances, deposits with licensed financial institutions and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and deposits restricted, if any.

2.16 Amount due from contract customers

Amount due from contract customers on construction contracts is included in trade and other receivables and is stated at cost plus attributable profits less foreseeable losses and less progress billings. Cost includes all direct construction costs and other related costs. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is included in trade and other payables as amount due to contract customers.

2.17 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost of crude oil and condensates includes costs of bringing the inventories to their present location and condition and is determined on a weighted average basis.

Cost of petroleum products includes crude oil costs, export duty, transportation charges and processing costs and is determined on a weighted average basis.

Cost of liquefied natural gas (LNG) and petrochemical products includes raw gas costs and production overheads and is determined on a weighted average basis.

Cost of material stores and spares consists of the invoiced value from suppliers and import duty charges and is determined on a weighted average basis.

Cost of developed properties held for sale consists of costs associated with the acquisition of land, direct costs and appropriate proportions of common costs attributable to developing the properties to completion.

2.18 Provisions

A provision is recognised if, as a result of a past event, the Group and the Company have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the accretion in the provision due to the passage of time is recognised as finance cost.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group, are not recognised in the financial statements but are disclosed as contingent liabilities unless the possibility of an outflow of economic resources is considered remote.

In particular, information about provisions that have the most significant effect on the amount recognised in the financial statements is described in note 27.

2.19 Employee benefits

(i) Short term benefits

Wages and salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Company.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF").

Some of the Group's foreign subsidiaries make contributions to their respective countries' statutory pension schemes and certain other independently-administered funds which are defined contribution plans.

Such contributions are recognised as an expense in the income statement as incurred.

(iii) Defined benefit plans

In the previous financial year, the Group and the Company, other than foreign subsidiaries, contribute monthly to the PETRONAS Retirement Benefit Fund ("PETRONAS Fund") which is a funded defined benefit plan. The Trustees has since commenced dissolution of the PETRONAS Fund and the Group and the Company ceased to contribute to the PETRONAS Fund.

Certain foreign subsidiaries also make contributions to retirement benefit plans which are funded defined benefit plans.

Contributions to the retirement benefit plans are based on eligible employees' monthly emoluments less statutory contribution, to finance the retirement benefits payable to eligible employees.

The assets of the plans are held separately from the entity. The net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the market yield at the balance sheet date on high quality corporate bonds or government bonds. The calculation is performed by an independent actuary using the Projected Unit Credit Method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Actuarial valuations are performed annually with the most recent valuations being 31 March 2010.

(iv) Post retirement benefits

Some of the Group's foreign subsidiaries provide certain post retirement medical benefits and after service employment benefits for their eligible retired employees. These post retirement benefit plans are unfunded defined benefit plans. Actuarial valuations are performed annually with the most recent valuations being 31 March 2010.

2.20 Taxation

Tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using the statutory tax rates at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on statutory tax rates at the balance sheet date.

Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.21 Foreign currency transactions

In preparing the financial statements of individual entities in the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are translated to the functional currencies at rates of exchange ruling on the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date have been retranslated to the functional currency at rates ruling on the balance sheet date.

Non-monetary assets and liabilities denominated in foreign currencies, which are measured at fair value, are retranslated to the functional currency at the foreign exchange rates ruling at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Gains and losses on exchange arising from retranslation are recognised in the income statement, except for differences arising on retranslation of available-for-sale equity instruments, which are recognised in equity.

On consolidation, the assets and liabilities of subsidiaries with functional currencies other than Ringgit Malaysia, are translated into Ringgit Malaysia at the exchange rates approximating those ruling at balance sheet date. The income and expenses are translated at the average exchange rates for the year, which approximates the exchange rates at the dates of the transactions. All resulting exchange differences are taken to the foreign currency translation reserve within equity.

Exchange differences arising from monetary items that in substance form part of the Company's net investment in foreign operation, are recognised in the Company's income statement. Such exchange differences are reclassified to equity in the consolidated financial statements only when the item is denominated in either the functional currency of the Company or the foreign operation. These exchange differences are recognised in the consolidated income statement upon disposal of the investment.

2.22 Financing costs

Finance costs comprise interest payable on borrowings and profit share margin on Islamic Financing Facilities, as well as any accretion in provision due to the passage of time.

All interest and other costs incurred in connection with borrowings are expensed as incurred, other than capitalised in accordance with note 2.6, note 2.10 and note 2.23. The interest component of finance lease payments is accounted for in accordance with the policy set out in note 2.7(i).

2.23 Borrowing costs and foreign currency exchange differences relating to projects-in-progress

Borrowing costs incurred on projects-in-progress which are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use, are capitalised. Capitalisation of borrowing costs will cease when the property, plant and equipment are ready for their intended use.

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is the weighted average of the borrowing costs applicable to borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of financing a specific project-in-progress, in which case the actual borrowing cost incurred on that borrowing less any investment income on the temporary investment of that borrowings will be capitalised.

Exchange differences arising from foreign currency borrowings, although regarded as an adjustment to interest costs, are not capitalised but instead recognised in the income statement in the year in which they arise.

2.24 Revenue

Revenue from sale of oil and gas and their related products are recognised in the income statement when the risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the income statement based on actual and estimates of work done in respect of services rendered for long term project management contracts. Work done is measured based on internal certification of project activities. Full provision is made for any foreseeable losses.

Revenue arising from shipping activities are mainly from freight income and charter income. Freight income and the relevant discharged costs of cargoes loaded onto vessels up to the balance sheet date are accrued for in the income statement based on percentage of completion method. Charter income is accrued on time accrual basis.

Revenue from property development activities is recognised based on the stage of completion measured by reference to the proportion that property development costs incurred for work performed to-date, bear to the estimated total property development costs. Where the financial outcome of a property development activity cannot be reliably estimated, property development revenue is recognised only to the extent of property development costs incurred that is probable will be recoverable, and property development costs on the development units sold are recognised as an expense in the period in which they are incurred. Any expected loss on a development project, including costs to be incurred over the defects liability period, is recognised immediately in the income statement.

Revenue arising from assets yielding interest is recognised on a time proportion basis that takes into account the effective yield on the assets.

Revenue arising from investments yielding dividend are recognised when the shareholders' right to receive payment is established.

3. PROPERTY, PLANT AND EQUIPMENT

2010 **Group**	**At 1.4.2009 RM Mil**	**Additions RM Mil**	**Acquisition of subsidiaries RM Mil**	**Disposals/ write offs RM Mil**
At cost:				
Freehold land	1,270	15	1	(14)
Lease properties	1,181	-	-	-
Oil and gas properties	91,005	3,790	2,320	(778)
Buildings	8,082	308	53	(123)
Plant	54,112	368	-	(65)
Expendable capital improvements	60	4	2	-
Office equipment, furniture and fittings	1,780	102	14	(28)
Other plant and equipment	14,564	763	2,818	(156)
Computer software and hardware	2,054	81	48	(76)
Motor vehicles	455	56	7	(27)
Vessels	37,103	597	-	(1,034)
Projects-in-progress				
- oil and gas properties	36,284	21,873	-	(17)
- other projects	10,142	7,477	52	(166)
	258,092	35,434	5,315	(2,484)

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Accumulated depreciation and impairment losses:	**At 1.4.2009 RM Mil**	**Charge for the year RM Mil**	**Acquisition of subsidiaries RM Mil**	**Impairment loss RM Mil**
At cost:				
Freehold land	22	-	-	-
Lease properties	614	48	-	-
Oil and gas properties	36,848	6,964	1,770	1,695
Buildings	2,410	263	12	270
Plant	29,579	2,344	-	-
Expendable capital improvements	58	2	-	-
Office equipment, furniture and fittings	1,349	131	11	1
Other plant and equipment	6,704	998	1,023	315
Computer software and hardware	1,555	204	35	-
Motor vehicles	271	51	6	-
Vessels	14,849	1,197	-	34
Projects-in-progress				
- oil and gas properties	1,818	-	-	310
- other projects	67	-	-	15
	96,144	12,202	2,857	2,640

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3. PROPERTY, PLANT AND EQUIPMENT (continued)

2010 Group	Transfers/ reclass RM Mil	Translation exchange difference RM Mil	At 31.3.2010 RM Mil
At cost:			
Freehold land	(17)	3	**1,258**
Lease properties	-	7	**1,188**
Oil and gas properties	14,441	(2,631)	**108,147**
Buildings	303	38	**8,661**
Plant	3,647	(2,168)	**55,894**
Expendable capital improvements	-	(1)	**65**
Office equipment, furniture and fittings	118	2	**1,988**
Other plant and equipment	605	44	**18,638**
Computer software and hardware	190	33	**2,330**
Motor vehicles	21	12	**524**
Vessels	1,527	(3,390)	**34,803**
Projects-in-progress			
- oil and gas properties	(13,027)	(1,012)	**44,101**
- other projects	(6,445)	(612)	**10,448**
	[a] 1,363	(9,675)	**288,045**

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Accumulated depreciation and impairment losses:	Disposals/ write offs RM Mil	Transfers/ reclass RM Mil	Translation exchange difference RM Mil	At 31.3.2010 RM Mil
At cost:				
Freehold land	-	-	-	**22**
Lease properties	-	-	3	**665**
Oil and gas properties	(517)	-	(1,364)	**45,396**
Buildings	(67)	(3)	6	**2,891**
Plant	(38)	(3)	(1,333)	**30,549**
Expendable capital improvements	-	-	-	**60**
Office equipment, furniture and fittings	(27)	2	3	**1,470**
Other plant and equipment	(100)	5	-	**8,945**
Computer software and hardware	(48)	(2)	28	**1,772**
Motor vehicles	(21)	-	1	**308**
Vessels	(465)	(66)	(1,440)	**14,109**
Projects-in-progress				
- oil and gas properties	-	-	-	**2,128**
- other projects	-	-	-	**82**
	(1,283)	[b] (67)	(4,096)	**108,397**

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[a] Comprises transfer from intangible assets of RM1,905,000,000, transfer to prepaid lease payment of (RM283,000,000), transfer to investment properties of (RM70,000,000), transfer to assets held for sale (RM107,000,000) and transfer to other receivables of (RM82,000,000).

[b] Comprises transfer to assets held for sale (RM67,000,000).

The fair value of property, plant and equipment of subsidiaries acquired during the year is presented on a gross basis, where cost is separately presented from accumulated depreciation and impairment losses.

3. **PROPERTY, PLANT AND EQUIPMENT** (continued)

2009 **Group**	**At** **1.4.2008** **RM Mil**	**Additions** **RM Mil**	**Acquisition** **of** **subsidiaries** **RM Mil**	**Disposals/** **write offs** **RM Mil**
At cost:				
Freehold land	1,192	40	-	(11)
Lease properties	1,178	1	-	-
Oil and gas properties	71,723	9,722	-	(2,057)
Buildings	7,437	205	89	(21)
Plant	48,495	263	8	(52)
Expendable capital improvements	58	1	1	-
Office equipment, furniture and fittings	1,548	114	25	(33)
Other plant and equipment	13,474	786	42	(146)
Computer software and hardware	1,760	122	5	(14)
Motor vehicles	405	58	11	(19)
Vessels	29,670	1,722	-	(11)
Projects-in-progress				
- oil and gas properties	21,445	20,232	-	(14)
- other projects	8,247	6,757	9	(53)
	206,632	40,023	190	(2,431)

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Accumulated depreciation and **impairment losses:**	**At** **1.4.2008** **RM Mil**	**Charge** **for the** **year** **RM Mil**	**Acquisition** **of** **subsidiaries** **RM Mil**	**Disposals/** **write offs** **RM Mil**
At cost:				
Freehold land	22	-	-	-
Lease properties	569	53	-	-
Oil and gas properties	27,593	7,007	-	(676)
Buildings	2,134	245	43	(12)
Plant	25,887	2,207	8	(49)
Expendable capital improvements	52	5	-	-
Office equipment, furniture and fittings	1,262	105	6	(29)
Other plant and equipment	5,850	787	40	(116)
Computer software and hardware	1,367	182	4	(8)
Motor vehicles	228	46	6	(13)
Vessels	11,415	1,597	-	-
Projects-in-progress				
- oil and gas properties	-	-	-	-
- other projects	-	-	-	-
	76,379	12,234	107	(903)

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3. PROPERTY, PLANT AND EQUIPMENT (continued)

2009 **Group**	**Transfers/ reclass RM Mil**	**Translation exchange difference RM Mil**	**At 31.3.2009 RM Mil**
At cost:			
Freehold land	60	(11)	1,270
Lease properties	-	2	1,181
Oil and gas properties	7,477	4,140	91,005
Buildings	430	(58)	8,082
Plant	2,741	2,657	54,112
Expendable capital improvements	(1)	1	60
Office equipment, furniture and fittings	126	-	1,780
Other plant and equipment	498	(90)	14,564
Computer software and hardware	145	36	2,054
Motor vehicles	5	(5)	455
Vessels	1,325	4,397	37,103
Projects-in-progress			
- oil and gas properties	(6,261)	882	36,284
- other projects	(5,382)	564	10,142
	[a] 1,163	12,515	258,092

continued from previous page

Accumulated depreciation and impairment losses:	**Impairment loss RM Mil**	**Transfers/ reclass RM Mil**	**Translation exchange difference RM Mil**	**At 31.3.2009 RM Mil**
At cost:				
Freehold land	-	-	-	22
Lease properties	(2)	-	(6)	614
Oil and gas properties	1,995	-	929	36,848
Buildings	12	3	(15)	2,410
Plant	12	(14)	1,528	29,579
Expendable capital improvements	-	-	1	58
Office equipment, furniture and fittings	-	5	-	1,349
Other plant and equipment	132	2	9	6,704
Computer software and hardware	-	2	8	1,555
Motor vehicles	3	2	(1)	271
Vessels	-	-	1,837	14,849
Projects-in-progress				
- oil and gas properties	1,818	-	-	1,818
- other projects	67	-	-	67
	4,037	-	4,290	96,144

continued from previous page

[a] Comprises transfer from intangible assets of RM1,195,000,000 and transfer to prepaid lease payment of (RM32,000,000).

The fair value of property, plant and equipment of subsidiaries acquired during the year is presented on a gross basis, where cost is separately presented from accumulated depreciation and impairment losses.

3. **PROPERTY, PLANT AND EQUIPMENT** (continued)

2010 **Company** **At cost:**	**At 1.4.2009** **RM Mil**	**Additions** **RM Mil**	**Adjustment/ write off** **RM Mil**	**Transfers** **RM Mil**	**At 31.3.2010** **RM Mil**
Freehold land	53	-	-	-	**53**
Lease properties	367	-	-	-	**367**
Oil and gas properties	5,813	2,728	(716)	-	**7,825**
Buildings	180	9	-	-	**189**
Expendable capital improvements	11	-	-	-	**11**
Office equipment, furniture and fittings	98	5	-	79	**182**
Other plant and equipment	10	-	-	-	**10**
Computer software and hardware	306	33	-	69	**408**
Motor vehicles	13	-	-	3	**16**
Projects-in-progress					
- other projects	206	162	(57)	(151)	**160**
	7,057	2,937	(773)	-	**9,221**

Accumulated depreciation:	**At 1.4.2009** **RM Mil**	**Charge for the year** **RM Mil**	**Adjustment/ write off** **RM Mil**	**Transfers** **RM Mil**	**At 31.3.2010** **RM Mil**
Freehold land	-	-	-	-	**-**
Lease properties	302	9	-	-	**311**
Oil and gas properties	4,528	577	(401)	-	**4,704**
Buildings	35	3	-	-	**38**
Expendable capital improvements	11	-	-	-	**11**
Office equipment, furniture and fittings	35	13	-	-	**48**
Other plant and equipment	9	-	-	-	**9**
Computer software and hardware	194	35	-	-	**229**
Motor vehicles	11	2	-	-	**13**
Projects-in-progress					
- other projects	-	-	-	-	-
	5,125	639	(401)	-	**5,363**

3. **PROPERTY, PLANT AND EQUIPMENT** (continued)

2009 **Company** **At cost:**	**At 1.4.2008** **RM Mil**	**Additions** **RM Mil**	**Disposals/ write off** **RM Mil**	**Transfers** **RM Mil**	**At 31.3.2009** **RM Mil**
Freehold land	53	-	-	-	53
Lease properties	367	-	-	-	367
Oil and gas properties	5,345	1,353	(885)	-	5,813
Buildings	180	-	-	-	180
Expendable capital improvements	11	-	-	-	11
Office equipment, furniture and fittings	46	3	-	49	98
Other plant and equipment	10	-	-	-	10
Computer software and hardware	212	37	-	57	306
Motor vehicles	14	-	(1)	-	13
Projects-in-progress					
- other projects	268	118	(74)	(106)	206
	6,506	1,511	(960)	-	7,057

Accumulated depreciation:	**At 1.4.2008** **RM Mil**	**Charge for the year** **RM Mil**	**Disposals/ write off** **RM Mil**	**Transfers** **RM Mil**	**At 31.3.2009** **RM Mil**
Freehold land	-	-	-	-	-
Lease properties	293	9	-	-	302
Oil and gas properties	4,026	1,181	(679)	-	4,528
Buildings	32	3	-	-	35
Expendable capital improvements	11	-	-	-	11
Office equipment, furniture and fittings	30	5	-	-	35
Other plant and equipment	8	1	-	-	9
Computer software and hardware	181	13	-	-	194
Motor vehicles	10	2	(1)	-	11
Projects-in-progress					
- other projects	-	-	-	-	-
	4,591	1,214	(680)	-	5,125

3. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group		Company	
	Net Book Value		Net Book Value	
	2010	**2009**	**2010**	**2009**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
At cost:				
Freehold land	**1,236**	1,248	**53**	53
Lease properties	**523**	567	**56**	65
Oil and gas properties	**62,751**	54,157	**3,121**	1,285
Buildings	**5,770**	5,672	**151**	145
Plant	**25,345**	24,533	**-**	-
Expendable capital improvements	**5**	2	**-**	-
Office equipment, furniture and fittings	**518**	431	**134**	63
Other plant and equipment	**9,693**	7,860	**1**	1
Computer software and hardware	**558**	499	**179**	112
Motor vehicles	**216**	184	**3**	2
Vessels	**20,694**	22,254	**-**	-
Projects-in-progress				
- oil and gas properties	**41,973**	34,466	**-**	-
- other projects	**10,366**	10,075	**160**	206
	179,648	161,948	**3,858**	1,932

Security

Property, plant and equipment of certain subsidiaries costing RM9,104,333,000 (2009: RM5,283,604,000) have been pledged as security for loan facilities as set out in note 25 and note 26 to the financial statements.

Projects-in-progress

Included in additions to projects-in-progress of the Group is finance costs capitalised during the year of RM139,707,000 (2009: RM101,794,000). The interest rate on borrowings capitalised ranges from 2.63% to 2.79% (2009: 2.48% to 2.81%) per annum.

Restriction of land title

The titles to certain freehold land are in the process of being registered in the subsidiaries' name.

Change in estimates

During the year, the Group revised the estimated future cost of dismantlement, removal or restoration of certain property, plant and equipment. The revision was accounted for prospectively as a change in accounting estimates resulting with higher depreciation charges which is not material in relation to the consolidated net profit for the year.

The Group has increased the useful life of certain vessels during the year. The revision was accounted for prospectively as a change in accounting estimates and as a result, the depreciation charges of the Group for the current financial year have decreased by RM465,787,000 (2009: RM Nil).

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Group and the Company investment decision-making process. They are also an important element in testing for impairment. The term "reserves" describes the recoverable quantity of oil and gas volumes that are commercially viable for development given the prevailing economic situation present at the time of estimation. While it is crucial to know the quantity of these oil and gas reserves to the exact volume, in all cases, oil and gas reserves are only estimates.

Estimation of oil and gas reserves are normally conducted using industry-recognised method. Sufficient availability of key technical information are critical to ensure reserves estimates are technically sound while recognising the existence of uncertainties present in the oil and gas reservoirs. Reserves estimates are normally presented alongside the range of level of certainties namely the P1 (proved reserves; high level of certainty), P2 (probable reserves; mean level of certainty) and P3 (possible reserves; low level of certainty). Level of certainties are related to the availability and understanding of the geological and reservoir data available at the time of estimation and is normally represented in the form of probability distribution.

The Group adopts the 2P (or P1 + P2) reserves estimation approach for its reporting and investment decision making purposes. This approach is in line with the general industry-wide applications supported by the Society of Petroleum Engineers (SPE), World Petroleum Congress (WPC) and Society of Petroleum Evaluators and Estimators (SPEE).

The reserves are further subdivided into developed and undeveloped category. Developed reserves are reserves expected to be recovered through existing wells and facilities under the operating conditions that have been designed for. Whereas the undeveloped reserves are reserves to be recovered from approved and sanctioned projects and remain so until the wells are drilled and completed and ready for production which would by then be classified as developed.

In the annual reporting, these reserves may be revised based on new data that may become available (e.g. additional wells, actual production) or changes in economic parameters (e.g. cost, oil prices). These changes will eventually affect the financial and accounting measures such as the standardised measure of discounted cash flow, depreciation and amortisation charges and decommissioning provisions. Ultimately, these changes will also affect profit.

Impairment

In 2010, the Group recognised impairment losses on certain property, plant and equipment amounting to RM2,640,000,000 (2009: RM4,037,000,000).

In assessing whether property, plant and equipment have been impaired, the carrying amount of each cash generating unit is compared with the recoverable amount of the cash generating unit. The recoverable amount is determined from the value in use calculations, using cash flow projections.

The Group uses a range of long term assumptions including prices, volumes, margins and costs based on past performance and management's expectations of market development. The projected cash flows were discounted using a discount rate which is typically at 9% (2009: 10%).

4. PROPERTIES

2010 Group	At 1.4.2009 RM Mil	Additions RM Mil	Disposals RM Mil	Transfer/ reclass RM Mil	At 31.3.2010 RM Mil
At cost:					
Freehold land	1,273	-	-	-	**1,273**
Buildings	6,203	33	(1)	8	**6,243**
Projects-in-progress	904	823	-	(339)	**1,388**
	8,380	856	(1)	[a] (331)	**8,904**

	At 1.4.2009 RM Mil	Charge for the year RM Mil	Disposals RM Mil	Transfer/ reclass RM Mil	At 31.3.2010 RM Mil
Accumulated depreciation:					
Freehold land	-	-	-	-	**-**
Buildings	1,011	125	-	-	**1,136**
Projects-in-progress	-	-	-	-	**-**
	1,011	125	-	-	**1,136**

2009 Group	At 1.4.2008 RM Mil	Additions RM Mil	Disposals RM Mil	Transfer to investment properties RM Mil	At 31.3.2009 RM Mil
At cost:					
Freehold land	1,283	-	(10)	-	1,273
Buildings	6,140	68	(5)	-	6,203
Projects-in-progress	644	463	-	(203)	904
	8,067	531	(15)	(203)	8,380

	At 1.4.2008 RM Mil	Charge for the year RM Mil	Disposals RM Mil	Transfer to investment properties RM Mil	At 31.3.2009 RM Mil
Accumulated depreciation:					
Freehold land	-	-	-	-	-
Buildings	900	112	(1)	-	1,011
Projects-in-progress	-	-	-	-	-
	900	112	(1)	-	1,011

[a] Comprises transfer to investment properties of (RM331,000,000)

4. **PROPERTIES** (continued)

Group	Net Book Value 2010 RM Mil	2009 RM Mil
At cost:		
Freehold land	**1,273**	1,273
Buildings	**5,107**	5,192
Projects-in-progress	**1,388**	904
	7,768	7,369

Certain properties with net book value of RM540,465,000 (2009: RM556,698,000) have been pledged as securities for loan facilities as set out in note 25 and note 26 to the financial statements.

Included in additions to projects-in-progress is finance costs capitalised during the year of RM56,182,000 (2009: RM41,459,000).

The interest rate on borrowings capitalised ranges from 5.65% to 5.90% (2009: 5.67% to 5.90%) per annum.

5. INVESTMENT PROPERTIES

Group	At 1.4.2009 RM Mil	Additions RM Mil	Acquisition of subsidiaries RM Mil	Disposal/ write offs RM Mil
At cost:				
Freehold land	1,058	36	-	(18)
Buildings	9,467	2	-	(23)
Land improvements	-	-	-	-
	10,525	38	-	(41)

continue to next page

	At 1.4.2009 RM Mil	Charge for the year RM Mil	Acquisition of subsidiaries RM Mil	Disposal/ write offs RM Mil
Accumulated depreciation:				
Freehold land	-	-	-	-
Buildings	1,967	352	-	(6)
Land improvements	-	-	-	-
	1,967	352	-	(6)

continue to next page

Group	At 1.4.2008 RM Mil	Additions RM Mil	Acquisition of subsidiaries RM Mil	Disposal/ of subsidiaries RM Mil
At cost:				
Freehold land	984	8	2	(78)
Buildings	9,120	3	22	-
Land improvements	221	-	-	-
	10,325	11	24	(78)

continue to next page

	At 1.4.2008 RM Mil	Charge for the year RM Mil	Acquisition of subsidiaries RM Mil	Disposal/ of subsidiaries RM Mil
Accumulated depreciation:				
Freehold land	-	-	-	-
Buildings	1,590	356	-	-
Land improvements	-	-	-	-
	1,590	356	-	-

continue to next page

5. INVESTMENT PROPERTIES (continued)

Group	Transfers RM Mil	Translation exchange difference RM Mil	At 31.3.2010 RM Mil
At cost:			
Freehold land	40	-	**1,116**
Buildings	553	(31)	**9,968**
Land improvements	-	-	**-**
	[a] 593	(31)	**11,084**

continued from previous page

	Transfers RM Mil	Translation exchange difference RM Mil	At 31.3.2010 RM Mil
Accumulated depreciation:			
Freehold land	-	-	**-**
Buildings	-	(19)	**2,294**
Land improvements	-	-	**-**
	-	(19)	**2,294**

continued from previous page

Group	Transfers/ reclass RM Mil	Translation exchange difference RM Mil	At 31.3.2009 RM Mil
At cost:			
Freehold land	141	1	1,058
Buildings	284	38	9,467
Land improvements	(221)	-	-
	[b] 204	39	10,525

continued from previous page

	Transfers/ reclass RM Mil	Translation exchange difference RM Mil	At 31.3.2009 RM Mil
Accumulated depreciation:			
Freehold land	-	-	-
Buildings	-	21	1,967
Land improvements	-	-	-
	-	21	1,967

continued from previous page

[a] Comprises transfers from property, plant and equipment RM70,000,000, properties RM331,000,000, land held for development RM22,000,000 and assets held for sale RM170,000,000.

[b] Comprises transfers from properties RM203,000,000 and land held for development RM1,000,000.

5. INVESTMENT PROPERTIES (continued)

Group	Net Book Value 2010 RM Mil	2009 RM Mil
Freehold land	**1,116**	1,058
Buildings	**7,674**	7,500
	8,790	8,558

The Directors have estimated the fair values of investment properties as at 31 March 2010 to be RM16,580,358,000 (2009: RM17,659,875,000). The fair values have been determined by discounting the estimated future cash flows or by reference to market evidence of transaction prices for similar properties.

Certain investment properties with net book value of RM3,266,159,000 (2009: RM3,417,243,000) have been pledged as securities for loan facilities as set out in note 25 and note 26 to the financial statements.

The titles to certain freehold land are in the process of being registered in the subsidiaries' name.

6. LAND HELD FOR DEVELOPMENT

Group 2010	At 1.4.2009 RM Mil	Additions RM Mil	Disposal RM Mil	Transfers/ reclass RM Mil	Translation exchange difference RM Mil	At 31.3.2010 RM Mil
At cost:						
Freehold land	1,337	-	(23)	(125)	(3)	**1,186**
Leasehold land	50	-	-	-	-	**50**
Infrastructure development	380	6	(10)	90	(12)	**454**
	1,767	6	(33)	[a] (35)	(15)	**1,690**

2009	At 1.4.2008 RM Mil	Additions RM Mil	Disposal RM Mil	Transfers/ reclass RM Mil	Translation exchange difference RM Mil	At 31.3.2009 RM Mil
At cost:						
Freehold land	1,338	-	-	(17)	16	1,337
Leasehold land	-	2	-	48	-	50
Infrastructure development	423	39	-	(84)	2	380
	1,761	41	-	[b] (53)	18	1,767

[a] Comprises transfers to property development costs (RM13,000,000) and investment properties (RM22,000,000).

[b] Comprises transfers to property development costs (RM16,000,000), investment properties (RM1,000,000) and other receivables (RM36,000,000).

7. PREPAID LEASE PAYMENTS

2010 Group	At 1.4.2009 RM Mil	Additions RM Mil	Acquisition of subsidiaries RM Mil	Disposals RM Mil
At cost:				
Leasehold land				
- long lease	1,933	44	86	(5)
- short lease	891	42	-	(37)
	2,824	86	86	(42)

continue to next page

	At 1.4.2009 RM Mil	Charge for the year RM Mil	Acquisition of subsidiaries RM Mil	Disposals RM Mil
Accumulated amortisation and impairment losses:				
Leasehold land				
- long lease	270	30	11	(3)
- short lease	313	26	-	(32)
	583	56	11	(35)

continue to next page

2009 Group	At 1.4.2008 RM Mil	Additions RM Mil	Acquisition of subsidiaries RM Mil	Disposals RM Mil
At cost:				
Leasehold land				
- long lease	1,807	84	11	(13)
- short lease	964	9	-	(1)
	2,771	93	11	(14)

continue to next page

	At 1.4.2008 RM Mil	Charge for the year RM Mil	Impairment loss RM Mil	Disposals RM Mil
Accumulated amortisation and impairment losses:				
Leasehold land				
- long lease	239	32	-	(12)
- short lease	300	28	(16)	(1)
	539	60	(16)	(13)

continue to next page

7. PREPAID LEASE PAYMENTS (continued)

2010 Group	Transfer RM Mil	Translation exchange difference RM Mil	At 31.3.2010 RM Mil
At cost:			
Leasehold land			
- long lease	68	(18)	**2,108**
- short lease	215	4	**1,115**
	[a] 283	(14)	**3,223**

continued from previous page

	Impairment RM Mil	Translation exchange difference RM Mil	At 31.3.2010 RM Mil
Accumulated amortisation and impairment losses:			
Leasehold land			
- long lease	-	(10)	**298**
- short lease	-	(1)	**306**
	-	(11)	**604**

continued from previous page

2009 Group	Transfers/ reclass RM Mil	Translation exchange difference RM Mil	At 31.3.2009 RM Mil
At cost:			
Leasehold land			
- long lease	23	21	1,933
- short lease	(83)	2	891
	[b] (60)	23	2,824

continued from previous page

	Transfers/ reclass RM Mil	Translation exchange difference RM Mil	At 31.3.2009 RM Mil
Accumulated amortisation and impairment losses:			
Leasehold land			
- long lease	-	11	270
- short lease	-	2	313
	-	13	583

continued from previous page

[a] Comprises transfer from property, plant and equipment RM283,000,000.

[b] Comprises transfer from property, plant and equipment RM32,000,000 and transfer to trade and other receivables (RM92,000,000).

7. **PREPAID LEASE PAYMENTS** (continued)

2010	**At 1.4.2009**	**Additions**	**Transfers**	**At 31.3.2010**
Company	**RM Mil**	**RM Mil**	**RM Mil**	**RM Mil**
At cost:				
Leasehold land				
- long lease	69	28	20	**117**
- short lease	30	-	(20)	**10**
	99	28	-	**127**

	At 1.4.2009	**Charge for the year**	**Transfers**	**At 31.3.2010**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
Accumulated amortisation:				
Leasehold land				
- long lease	11	1	20	**32**
- short lease	20	3	(20)	**3**
	31	4	-	**35**

2009				
Company	**At 1.4.2008**	**Additions**	**Transfers**	**At 31.3.2009**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
At cost:				
Leasehold land				
- long lease	69	-	-	69
- short lease	30	-	-	30
	99	-	-	99

	At 1.4.2008	**Charge for the year**	**Transfers**	**At 31.3.2009**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
Accumulated amortisation:				
Leasehold land				
- long lease	10	1	-	11
- short lease	19	1	-	20
	29	2	-	31

	Group		**Company**	
	2010	**2009**	**2010**	**2009**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
Carrying amount:				
Leasehold land				
- long lease	**1,810**	1,663	**85**	58
- short lease	**809**	578	**7**	10
	2,619	2,241	**92**	68

Restrictions of land title

The titles to certain leasehold land are in the process of being registered in the subsidiaries' name. Certain long term leasehold land of the Group cannot be disposed of, charged or sub-leased without the prior consent of the relevant authority.

8. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	RM Mil	RM Mil
Investments at cost		
- quoted shares		
- in Malaysia	**7,497**	4,116
- unquoted shares	**20,647**	18,297
Fair value adjustments on loans and advances and financial guarantee	**7,531**	6,958
	35,675	29,371
Less: Impairment losses		
- unquoted shares	**(1,257)**	(429)
	34,418	28,942
Market value of quoted shares	**41,255**	37,052

Details of significant subsidiaries are stated in note 45 to the financial statements.

9. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2010	2009	2010	2009
	RM Mil	RM Mil	RM Mil	RM Mil
Investments at cost				
- quoted shares				
- in Malaysia	**256**	256	**302**	302
- unquoted shares	**2,593**	2,897	**537**	736
Share of post-acquisition profits and reserves	**2,559**	2,835	**-**	-
	5,408	5,988	**839**	1,038
Less: Impairment losses				
- unquoted shares	**(87)**	(76)	-	-
	5,321	5,912	**839**	1,038
Market value of quoted shares	**817**	754	**817**	754
Summary of financial information on associates:				
Total assets (100%)	**27,258**	30,533	**3,673**	3,815
Total liabilities (100%)	**(15,066)**	(16,018)	**(804)**	(660)
Revenue (100%)	**11,982**	12,804	**3,778**	3,594
Profit/ (Loss) (100%)	**3,543**	3,107	**549**	(3)
Contingent liabilities:				
Guarantees extended to third parties	**(23)**	(5)	**(14)**	-

Details of significant associates are stated in note 46 to the financial statements.

10. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Investments at cost				
- unquoted shares	**1,375**	1,510	**778**	1,160
Fair value adjustments on loans and advances and financial guarantee	**1,300**	1,419	**717**	837
Share of post-acquisition profits and reserves	**389**	800	**-**	-
	3,064	3,729	**1,495**	1,997
Less: Impairment losses	**(13)**	(13)	**(93)**	(93)
	3,051	3,716	**1,402**	1,904

Summary of financial information on jointly controlled entities:

	Group 2010	Group 2009	Company 2010	Company 2009
Total assets (100%)	**11,950**	15,126	**5,130**	8,425
Total liabilities (100%)	**(9,620)**	(11,273)	**(2,978)**	(4,674)
Revenue (100%)	**3,660**	6,796	**2,701**	6,404
Profit (100%)	**503**	244	**490**	220
Contingent liabilities:				
Claims filed by/disputes with various parties	**(2)**	(2)	**(2)**	(2)

The Group's share of the current year and cumulative losses of certain jointly controlled entities amounting to RM18,925,000 (2009: RM27,389,000) and RM150,978,000 (2009: RM168,025,000) respectively have not been recognised in the Group's income statement as equity accounting has ceased when the Group's share of losses of these jointly controlled entities exceeded the carrying amount of its investment in these jointly controlled entities. The investments in these jointly controlled entities have been fully impaired.

Details of significant jointly controlled entities are stated in note 47 to the financial statements.

11. INTANGIBLE ASSETS

2010 Group At cost:	At 1.4.2009 RM Mil	Additions RM Mil	Write-offs RM Mil	Transfer from/ (to) property, plant and equipment RM Mil	Translation exchange difference RM Mil	At 31.3.2010 RM Mil
Goodwill	5,521	1,308	(67)	67	(278)	**6,551**
Exploration expenditure	10,469	3,342	(1,652)	(1,974)	(664)	**9,521**
Other intangible assets	4,162	252	(1,972)	2	(135)	**2,309**
	20,152	4,902	(3,691)	(1,905)	(1,077)	**18,381**

Accumulated amortisation and impairment losses:	At 1.4.2009 RM Mil	Charge for the year RM Mil	Write-offs RM Mil	Impairment loss RM Mil	Translation exchange difference RM Mil	At 31.3.2010 RM Mil
Goodwill	165	-	-	23	3	**191**
Exploration expenditure	-	-	-	121	-	**121**
Other intangible assets	2,975	154	(1,923)	-	(59)	**1,147**
	3,140	154	(1,923)	144	(56)	**1,459**

2009 Group At cost:	At 1.4.2008 RM Mil	Additions RM Mil	Write-offs RM Mil	Transfer to property, plant and equipment RM Mil	Translation exchange difference RM Mil	At 31.3.2009 RM Mil
Goodwill	5,531	40	-	-	(50)	5,521
Exploration expenditure	8,449	4,875	(2,327)	(1,195)	667	10,469
Other intangible assets	4,259	98	(164)	-	(31)	4,162
	18,239	5,013	(2,491)	(1,195)	586	20,152

Accumulated amortisation and impairment losses:	At 1.4.2008 RM Mil	Charge for the year RM Mil	Write-offs RM Mil	Impairment loss RM Mil	Translation exchange difference RM Mil	At 31.3.2009 RM Mil
Goodwill	164	-	-	2	(1)	165
Exploration expenditure	21	-	(21)	-	-	-
Other intangible assets	2,805	188	(1)	-	(17)	2,975
	2,990	188	(22)	2	(18)	3,140

11. INTANGIBLE ASSETS (continued)

	Carrying Amounts	
	2010	**2009**
	RM Mil	**RM Mil**
Group		
Goodwill	**6,360**	5,356
Exploration expenditure	**9,400**	10,469
Other intangible assets	**1,162**	1,187
	16,922	17,012

Impairment review of goodwill

For the purpose of impairment testing, goodwill is allocated to groups of cash-generating units which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (including goodwill) is compared with the recoverable amount of the cash-generating unit. The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of any information about the fair value of a cash-generating unit, the recoverable amount is deemed to be the value in use.

Included in goodwill is an amount of RM3,986,000,000 (2009: RM3,986,000,000) arising from the acquisition of PETRONAS Lubricants Italy S.p.A Group ("PLI Group"). The recoverable amount of PLI Group unit was based on its value in use and was determined with the assistance of independent valuers. The value in use was determined by using the discounted cash flow method based on management's business plan cash flow projections for 5 financial years from 2011 to 2015, adjusted with an estimated terminal value. The cash flow assumes a long term growth rate of 2.5% (2009: 2.4%) and is discounted to present value using discount rate of between 6.6% and 8.4% (2009: 7.7% and 8.5%).

Based on the above, the recoverable amount of the unit was determined to be higher than its carrying amount and therefore, no impairment loss was recognised. The above estimates are sensitive in the following areas:

(i) an increase/(decrease) of a half percentage point in long term growth rate used would have increased/(decreased) the recoverable amount by approximately RM429 million/(RM359 million).

(ii) an increase/(decrease) of a one percentage point in discount rate used would have (decreased)/increased the recoverable amount by approximately (RM371 million)/RM901 million.

The "value in use" of other goodwill is derived from the respective cash-generating units' business plan cash flow projections for 5 financial years and extrapolated using long term average growth rate of the respective industries those units are engaged in. These cash flows are discounted to present value using discount rate of 9% (2009: 10%).

Based on the above, the carrying amount of other goodwill of these units were determined to be higher than their recoverable amount and impairment losses of RM23 million was recognised. The impairment loss was allocated to goodwill and is included in administration expenses.

12. LONG TERM RECEIVABLES

	Group 2010 RM Mil	Group 2009 RM Mil (Restated)	Company 2010 RM Mil	Company 2009 RM Mil (Restated)
Term loans and advances:				
Loans and advances due from subsidiaries	**-**	-	**69,328**	62,810
Term loans due from subsidiaries	**-**	-	**3,713**	4,153
Loans and advances due from associates and jointly controlled entities	**1,607**	1,343	**180**	204
Term loans due from associates and jointly controlled entities	**112**	205	**112**	202
	1,719	1,548	**73,333**	67,369
Retirement benefits (note 16)	**173**	124	**-**	-
Other receivables	**1,246**	1,197	**-**	-
Derivative assets (note 14)	**398**	383	**1,219**	801
	3,536	3,252	**74,552**	68,170
Less: Impairment losses				
- Term loans and advances	**(19)**	(14)	**(226)**	(199)
- Other receivables	**(336)**	(315)	**-**	-
	3,181	2,923	**74,326**	67,971
Receivable within twelve months (note 20)	**31**	112	**31**	168
Receivable after twelve months	**3,150**	2,811	**74,295**	67,803
	3,181	2,923	**74,326**	67,971

Included in the Company's loans and advances due from subsidiaries is an amount of RM51,142,499,000 (2009: RM31,419,890,000), which bears interest at rates ranging from 1.21% to 7.88% (2009: 2.94% to 8.64%) per annum.

Included in the Company's loans and advances due from associates and jointly controlled entities is an amount of RM179,703,000 (2009: RM189,744,000), which bears interest at rates ranging from 2.14% to 3.82% (2009: 1.88% to 6.17%) per annum.

Included in the Group's loans and advances due from associates and jointly controlled entities is an amount of RM938,799,000 (2009: RM1,001,607,000), which bears interest at rates ranging from 2.14% to 10.00% (2009: 1.88% to 10.00%) per annum.

Term loans due from subsidiaries, associates and jointly controlled entities were on-lending of term loans obtained by the Company, on terms and conditions similar as those of the principal loan agreements entered into by the Company.

13. FUND AND OTHER INVESTMENTS

	Group 2010 RM Mil	Group 2009 RM Mil	Company 2010 RM Mil	Company 2009 RM Mil
Non current				
Other investments				
Loans and receivables				
Other unquoted securities	**737**	536	**-**	-
Available-for-sale				
Quoted shares				
- in Malaysia	**337**	295	**-**	-
- outside Malaysia	**15,767**	9,365	**-**	-
Unquoted shares	**430**	375	**76**	76
	16,534	10,035	**76**	76
Less: Impairment losses				
Unquoted shares	**(3)**	-	-	-
	16,531	10,035	**76**	76
	17,268	10,571	**76**	76
Current				
Other investments				
Available-for-sale				
Quoted shares				
- in Malaysia	**340**	171	**342**	174
Negotiable Certificate of Deposits	**130**	4,055	**130**	4,055
Unquoted Corporate Commercial Papers	**-**	102	**-**	102
	470	4,328	**472**	4,331
Fair value through profit or loss				
Designated upon initial recognition				
Negotiable Certificate of Deposits	**500**	516	**500**	516
Loan Stock	**20**	26	**-**	-
Unquoted Corporate Private Debt Securities	**1,764**	1,368	**2,891**	2,577
Other unquoted securities	**160**	515	**-**	168
	2,444	2,425	**3,391**	3,261
Balance carried forward	**2,914**	6,753	**3,863**	7,592

13. FUND AND OTHER INVESTMENTS (continued)

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Balance brought forward	**2,914**	6,753	**3,863**	7,592
Fund investments				
Available-for-sale				
Treasury Bills	**11,259**	27,223	**11,259**	27,223
Fair value through profit or loss				
Designated upon initial recognition				
Quoted shares				
- in Malaysia	**-**	314	**-**	314
- outside Malaysia	**78**	53	**-**	-
Quoted securities				
- outside Malaysia	**478**	1,140	**478**	1,126
Malaysian Government Securities	**4,952**	4,855	**4,892**	4,810
	5,508	6,362	**5,370**	6,250
	16,767	33,585	**16,629**	33,473
	19,681	40,338	**20,492**	41,065
	36,949	50,909	**20,568**	41,141
Representing items:				
At amortised cost	**1,164**	911	**76**	76
At fair value	**35,785**	49,998	**20,492**	41,065
	36,949	50,909	**20,568**	41,141

14. DERIVATIVE ASSETS / LIABILITIES

	Note	Group 2010 RM Mil	Group 2009 RM Mil	Company 2010 RM Mil	Company 2009 RM Mil
Derivative assets					
Non-current					
Forward foreign exchange contracts		**398**	383	**1,219**	801
Current					
Commodity swaps		**16**	5	**-**	-
Forward foreign exchange contracts		**47**	1,294	**21**	1,277
		63	1,299	**21**	1,277
Included within:					
Long term receivables	12	**398**	383	**1,219**	801
Trade and other receivables	20	**63**	1,299	**21**	1,277
		461	1,682	**1,240**	2,078
Derivative liabilities					
Non-current					
Interest rate swaps		**(298)**	(106)	**-**	-
Forward foreign exchange contracts		**-**	-	**(129)**	(142)
		(298)	(106)	**(129)**	(142)
Current					
Commodity swaps		**(19)**	(146)	**-**	-
Interest rate swaps		**(4)**	-	**-**	-
Forward foreign exchange contracts		**(10)**	(42)	**(2)**	(5)
Forward oil price contracts		**(2)**	(28)	**-**	-
		(35)	(216)	**(2)**	(5)
Included within:					
Other long term liabilities and provisions	27	**(298)**	(106)	**(129)**	(142)
Trade and other payables	28	**(35)**	(216)	**(2)**	(5)
		(333)	(322)	**(131)**	(147)

In the normal course of business, the Group and the Company enter into derivative financial instruments to manage their normal business exposures in relation to commodity prices, foreign currency exchange rates and interest rates, including management of the balance between floating rate and fixed rate debt, consistent with risk management policies and objectives.

The calculation of fair value for derivative financial instruments depends on the type of instruments. The fair value of derivative interest rate contract (e.g. interest rate swap agreements) are estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The fair value of forward foreign currency exchange contracts is based on forward exchange rates.

15. DEFERRED TAX

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

2010 Group	At 1.4.2009 RM Mil	Charged/ (credited) to income statement RM Mil	Acquisition of subsidiaries RM Mil	Equity RM Mil	Translation exchange difference RM Mil	At 31.3.2010 RM Mil
Deferred tax liabilities						
Property, plant and equipment	11,934	1,018	(11)	-	(254)	**12,687**
Properties	148	488	-	-	(2)	**634**
Other items	51	(22)	47	57	95	**228**
	12,133	1,484	36	57	(161)	**13,549**
Deferred tax assets						
Property, plant and equipment	(25)	72	-	-	1	**48**
Unused tax losses	(1,824)	(299)	-	-	-	**(2,123)**
Unabsorbed capital allowances	(841)	361	-	-	-	**(480)**
Unused reinvestment allowances	(73)	33	-	-	-	**(40)**
Unused investment tax allowances	(376)	(146)	-	-	-	**(522)**
Other items	(759)	99	(267)	(196)	(255)	**(1,378)**
	(3,898)	120	(267)	(196)	(254)	**(4,495)**

2009 Group	At 1.4.2008 RM Mil	Charged/ (credited) to income statement RM Mil	Acquisition of subsidiaries RM Mil	Equity RM Mil	Translation exchange difference RM Mil	At 31.3.2009 RM Mil
Deferred tax liabilities						
Property, plant and equipment	11,456	239	-	-	239	11,934
Properties	49	96	-	-	3	148
Other items	107	36	16	-	(108)	51
	11,612	371	16	-	134	12,133
Deferred tax assets						
Property, plant and equipment	(386)	361	-	-	-	(25)
Unused tax losses	(954)	(889)	-	-	19	(1,824)
Unabsorbed capital allowances	(496)	(345)	-	-	-	(841)
Unused reinvestment allowances	(219)	146	-	-	-	(73)
Unused investment tax allowances	(492)	116	-	-	-	(376)
Other items	(557)	(351)	(1)	-	150	(759)
	(3,104)	(962)	(1)	-	169	(3,898)

15. DEFERRED TAX (continued)

Company 2010	At 1.4.2009 RM Mil	Charged/ (credited) to income statement RM Mil	At 31.3.2010 RM Mil
Deferred tax assets			
Property, plant and equipment	12	66	**78**
Unused tax losses	(1,305)	(412)	**(1,717)**
Others	(123)	(23)	**(146)**
	(1,416)	(369)	**(1,785)**

2009	At 1.4.2008 RM Mil	Charged/ (credited) to income statement RM Mil	At 31.3.2009 RM Mil
Deferred tax assets			
Property, plant and equipment	(9)	21	12
Unused tax losses	(777)	(528)	(1,305)
Others	(104)	(19)	(123)
	(890)	(526)	(1,416)

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The amounts determined after appropriate offsetting are as follows:

	Group		Company	
	2010 **RM Mil**	2009 RM Mil	**2010** **RM Mil**	2009 RM Mil
Deferred tax assets				
Deferred tax liabilities	**371**	1,309	-	-
Deferred tax assets	**(3,802)**	(3,728)	**(1,785)**	(1,416)
	(3,431)	(2,419)	**(1,785)**	(1,416)
Deferred tax liabilities				
Deferred tax liabilities	**13,178**	10,824	-	-
Deferred tax assets	**(693)**	(170)	-	-
	12,485	10,654	-	-

15. DEFERRED TAX (continued)

No deferred tax has been recognised for the following items:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
Deductible temporary differences	**33**	-	**-**	-
Unabsorbed capital allowances	**538**	436	**-**	-
Unused tax losses	**1,601**	488	**-**	-
Unused investment tax allowances	**475**	2	**-**	-
	2,647	926	**-**	-

The unabsorbed capital allowances, unused tax losses and unused investment tax allowances do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

The Group and the Company have unused tax losses carried forward of RM10,093,000,000 (2009: RM7,784,000,000) and RM6,868,000,000 (2009: RM5,220,000,000) respectively which give rise to the recognised and unrecognised deferred tax assets above.

The Group also has unused investment tax allowances and unused reinvestment allowances of RM2,563,000,000 (2009: RM1,506,000,000) and RM160,000,000 (2009: RM292,000,000) respectively, which give rise to the recognised and unrecognised deferred tax assets above.

16. RETIREMENT BENEFITS

The amounts recognised in the balance sheet are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Present value of funded defined benefit obligations				
- defined benefit	**915**	740	**-**	-
Present value of unfunded defined benefit obligations				
- retirement and after service employment benefits	**46**	52	**-**	-
- post retirement medical aid	**199**	152	**-**	-
Fair value of plan assets	**(1,338)**	(963)	**-**	-
	(178)	(19)	**-**	-
Unrecognised actuarial losses	**250**	100	**-**	-
Net liabilities	**72**	81	**-**	-
Amounts in the balance sheet:				
Liabilities (note 27)	**245**	205	**-**	-
Assets (note 12)	**(173)**	(124)	**-**	-
Net liabilities	**72**	81	**-**	-

The amounts recognised in the income statement are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Current service cost	**13**	84	**-**	16
Interest cost	**93**	121	**-**	15
Expected return on plan assets	**(112)**	(115)	**-**	(2)
Payments shortfall by participating companies of actual obligations	**-**	-	**-**	10
Net actuarial gains recognised in the financial year	**(119)**	(407)	**-**	(388)
Movement of unrecognised actuarial losses	**150**	75	**-**	-
Total included in employee benefits expense	**25**	(242)	**-**	(349)

16. **RETIREMENT BENEFITS** (continued)

Changes in the present value of defined benefit obligations are as follows:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
Defined benefit obligations as at 1 April	**944**	2,762	-	1,932
Service cost	**13**	84	-	60
Interest cost	**93**	121	-	57
Benefits paid	**(68)**	(147)	-	(81)
Actuarial losses/(gains)	**14**	(221)	-	(350)
Settlement	**-**	(1,618)	-	(1,618)
Contribution received	**3**	-	-	-
Translation difference	**161**	(37)	-	-
Defined benefit obligations as at 31 March	**1,160**	944	-	-

Changes in the fair value of plan assets are as follows:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
Fair value of plan assets at 1 April	**963**	2,653	**-**	1,489
Contributions received	**3**	99	**-**	92
Expected return on plan assets	**112**	115	**-**	8
Benefits paid	**(49)**	(131)	**-**	(81)
Actuarial gains/(losses)	**133**	(177)	**-**	38
Realisation	**-**	(1,546)	**-**	(1,546)
Translation difference	**176**	(50)	**-**	-
Fair value of plan assets at 31 March	**1,338**	963	**-**	-
Actual return on plan assets	**245**	108	**-**	8

16. RETIREMENT BENEFITS (continued)

The major categories of plan assets as a percentage of total plan assets are as follows:

	Group	
	2010	2009
	%	%
Equities	**53.8**	52.1
Bonds	**14.3**	9.6
Real estate	**4.9**	5.3
Cash	**8.0**	15.0
Others	**19.0**	18.0
	100.0	100.0

In calculating the defined benefit obligations and the related current service cost and past service cost using the Projected Unit Credit Method for the Group, the following assumptions were used. The assumptions were calculated on a weighted average basis.

	Group	
	2010	2009
	%	%
Discount rate	**9.0**	8.8
Expected return on plan assets	**10.5**	10.0
Expected rate of salary increase	**6.2**	6.5
Future pension cost increase	**5.5**	5.3
Inflation rate	**4.9**	4.8
Medical inflation	**7.5**	7.3

The effect of a one percentage point increase/(decrease) in medical inflation rate would be to increase/(decrease) the aggregate service cost and interest cost by approximately RM6,949,000/(RM1,018,000) (2009: RM3,400,000/(RM2,700,000)) and the defined benefit obligation by approximately RM34,982,000/(RM27,987,000) (2009: RM28,500,000/(RM23,100,000)).

The history of (deficit)/surplus and of experience (losses)/gains for the current and previous four financial years are as follows:

	2010	2009	2008	2007	2006
Group	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil
Defined benefit obligation	**(1,160)**	(944)	(2,762)	(2,614)	(2,229)
Plan assets	**1,338**	963	2,653	2,741	2,790
Surplus/(deficit) in the plan	**178**	19	(109)	127	561
Experience gains/(losses)	**119**	407	(173)	(434)	83
Company					
Defined benefit obligation	**-**	-	(1,932)	(1,676)	(1,073)
Plan assets	**-**	-	1,489	1,397	1,333
(Deficit)/surplus in the plan	**-**	-	(443)	(279)	260
Experience gains/(losses)	**-**	388	(165)	(569)	81

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Non-current				
Deposits placed:				
Banks	**288**	416	**-**	-
Current				
Cash and bank balances	**2,595**	4,739	**2**	29
Deposits placed:				
Banks	**96,244**	80,427	**54,183**	41,192
Finance companies	**22**	242	**-**	233
Other corporations	**4,976**	5,323	**2,492**	4,143
	103,837	90,731	**56,677**	45,597
	104,125	91,147	**56,677**	45,597

Included in cash and bank balances of the Group are amounts of RM38,300,000(2009: RM38,287,000) held pursuant to the requirement of the Housing Development (Housing Development Account) Regulations 2002 and are therefore held for certain payments only.

Included in deposits placed with licensed financial institutions of the Group is an amount of RM745,000,000 (2009: RM788,000,000) being deposits held under designated accounts for repayment of term loan and redemption of Islamic Financing Facilities. Amounts restricted or held for certain payments only, for which payments are not due within the next 12 months are presented as non-current.

18. PROPERTY DEVELOPMENT COSTS

Group 2010	At 1.4.2009 RM Mil	Costs incurred during the year RM Mil	Transfer from land held for development RM Mil	Reversal of completed projects RM Mil	Translation exchange differences RM Mil	At 31.3.2010 RM Mil
Freehold land	537	7	7	(529)	-	**22**
Development costs	417	180	6	(147)	(3)	**453**
Less: Accumulated costs charged to income statement	(31)	(17)	-	46	-	**(2)**
	923	170	13	(630)	(3)	**473**

2009	At 1.4.2008 RM Mil	Costs incurred during the year RM Mil	Transfer from land held for development RM Mil	Reversal of completed projects RM Mil	Translation exchange differences RM Mil	At 31.3.2009 RM Mil
Freehold land	537	-	4	(4)	-	537
Development costs	199	245	12	(40)	1	417
Less: Accumulated costs charged to income statement	8	(83)	-	44	-	(31)
	744	162	16	-	1	923

Included in property development costs incurred during the year is finance costs capitalised during the year of RM7,796,000 (2009: RM19,406,000).

The interest rate on the borrowings capitalised is 5.80% (2009: 4.78%) per annum.

19. TRADE AND OTHER INVENTORIES

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Crude oil and condensate	**1,854**	1,440	**-**	-
Petroleum products	**3,511**	2,432	**42**	34
Petrochemical products	**623**	292	**-**	-
Liquefied natural gas	**164**	135	**-**	-
Stores, spares and others	**2,012**	1,978	**-**	-
Developed properties held for sale	**401**	13	**-**	-
	8,565	6,290	**42**	34

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
		(Restated)		(Restated)
Trade receivables	**20,091**	16,713	**2,995**	2,366
Staff housing and vehicle loans	**378**	1,090	**376**	1,088
Other receivables, deposits and prepayments	**6,135**	6,083	**385**	684
Amount due from:				
- contract customers	**1,811**	1,055	**-**	-
- subsidiaries*	**-**	-	**11,948**	6,068
- associates and jointly controlled entities*	**430**	400	**37**	31
Term loans due from:				
- subsidiaries (note 12)	**-**	-	**-**	56
- associates and jointly controlled entities (note 12)	**31**	112	**31**	112
	28,876	25,453	**15,772**	10,405
Less: Impairment losses				
Trade receivables	**(868)**	(707)	**(489)**	(411)
Amount due from subsidiaries	**-**	-	**(399)**	(286)
Other receivables, deposits and prepayments	**(86)**	(44)	**(44)**	(36)
Derivative assets (note 14)	**63**	1,299	**21**	1,277
	27,985	26,001	**14,861**	10,949

* Amount due from subsidiaries, associates and jointly controlled entities arose in the normal course of business.

20. TRADE AND OTHER RECEIVABLES (continued)

Amount due from contract customers:

	Group 2010 RM Mil	Group 2009 RM Mil
Aggregate costs incurred to date	**10,255**	8,008
Add: Attributable profit	**296**	766
	10,551	8,774
Less: Progress billings	**(8,740)**	(7,719)
	1,811	1,055

Included in trade receivables of the Group are rental receivables amounting to RM7,923,000 (2009: RM11,382,000), which have been pledged for loan facilities as set out in note 25 and note 26 to the financial statements.

Included in other receivables of the Group and the Company are loans to Directors of the Company amounting to RMNil (2009: RM120,000) relating to housing and motor vehicle loans given to certain executive Directors on terms and conditions as approved by shareholders.

21. ASSETS CLASSIFIED AS HELD FOR SALE

	Group 2010 RM Mil	Group 2009 RM Mil
Vessels	**39**	-
Other plant and equipment	**1**	-
Land and building	**-**	170
	40	170

The above amount represents carrying values of assets owned by the Group with the intention of disposing of in the immediate future. The carrying amounts of these assets immediately before reclassification are not materially different from their fair values.

Land and building previously classified as held for sale has been re-classified back into investment properties as their proposed sale transaction is no longer expected to materialise. Depreciation expense has been calculated retrospectively from the date of classification under assets held for sale to the end of the current financial year and recognised in the current year income statement.

22. SHARE CAPITAL

	Company 2010 RM Mil	Company 2009 RM Mil
Authorised:		
500,000 ordinary shares of RM1,000 each	**500**	500
Issued and fully paid:		
100,000 ordinary shares of RM1,000 each	**100**	100

23. RESERVES

Pursuant to Section 84 of the Petroleum (Income Tax) Act 1967, dividends paid out on income derived from petroleum operations are not chargeable to income tax. Subject to agreement by the Inland Revenue Board, the Company has sufficient income derived from petroleum operations, Section 108 tax credit and tax exempt income to distribute all its distributable reserves at 31 March 2010, if paid out as dividends.

The Financial Act, 2007 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the Section 108 tax credit as at 31 March 2010 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

Capital Reserves

Capital reserves represent primarily reserves created upon redemption of preference shares and the Group's share of its associate companies' reserves.

Foreign Currency Translation Reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of subsidiaries whose functional currencies are different from that of the Group's presentation currency.

Available-for-sale Reserve

This reserve records the changes in fair value of available-for-sale investments. On disposal or impairment, the cumulative changes in fair value are transferred to the income statement.

General Reserve

General reserve represents appropriation of retained profits for general purposes rather than for a specific item of future loss or expense. In effect, it is a reserve for unspecified possible events.

24. MINORITY SHAREHOLDERS' INTERESTS

This consists of the minority shareholders' proportion of share capital and reserves of subsidiaries.

25. BORROWINGS

	Note	Group		Company	
		2010 RM Mil	**2009 RM Mil (Restated)**	**2010 RM Mil**	**2009 RM Mil (Restated)**
Current					
Secured					
Term loans		**503**	510	**-**	-
Islamic financing facilities	26	**238**	386	**-**	-
		741	896	**-**	-
Unsecured					
Term loans		**570**	445	**-**	-
Notes and Bonds		**-**	5,099	**-**	3,617
Islamic financing facilities	26	**790**	1,220	**-**	-
Revolving credits		**674**	592	**-**	-
Bankers' acceptances		**-**	48	**-**	-
Bank overdrafts		**307**	155	**-**	-
		2,341	7,559	**-**	3,617
		3,082	8,455	**-**	3,617
Non-current					
Secured					
Term loans		**3,249**	3,243	**-**	-
Islamic financing facilities	26	**1,363**	1,481	**-**	-
		4,612	4,724	**-**	-
Unsecured					
Term loans		**8,835**	9,872	**-**	-
Notes and Bonds		**26,077**	18,183	**23,727**	15,575
Islamic financing facilities	26	**9,264**	2,712	**4,894**	-
		44,176	30,767	**28,621**	15,575
		48,788	35,491	**28,621**	15,575
		51,870	43,946	**28,621**	19,192

25. BORROWINGS (continued)

Terms and debt repayment schedule

Group	Note	Total RM Mil	Under 1 year RM Mil	1-2 years RM Mil	2-5 years RM Mil	Over 5 years RM Mil
Secured						
Term loans		3,752	503	648	1,946	655
Islamic financing facilities	26	1,601	238	538	626	199
		5,353	741	1,186	2,572	854
Unsecured						
Term loans		9,405	570	289	8,372	174
Notes and Bonds		26,077	-	-	9,416	16,661
Islamic financing facilities	26	10,054	790	1,150	7,159	955
Revolving credits		674	674	-	-	-
Bank overdrafts		307	307	-	-	-
		46,517	2,341	1,439	24,947	17,790
		51,870	3,082	2,625	27,519	18,644

Included in the Group's unsecured term loans is an amount of RMNil (2009: RM23,038,000) which was obtained from the corporate shareholders of the subsidiaries.

The unsecured revolving credits and bank overdrafts are obtained by the subsidiaries and primarily bear interest at rates ranging from 2.75% to 7.12% (2009: 2.35% to 7.90%) per annum.

Terms and debt repayment schedule

Company	Note	Total RM Mil	Under 1 year RM Mil	1-2 years RM Mil	2-5 years RM Mil	Over 5 years RM Mil
Unsecured						
Notes and Bonds		23,727	-	-	7,100	16,627
Islamic financing facilities		4,894	-	-	4,894	-
		28,621	-	-	11,994	16,627

25. BORROWINGS (continued)

The unsecured term loans obtained by the subsidiaries comprise:

	2010	**2009**
USD Term loan	**US$1,112 million**	US$385 million
RM Term loans	**RM2,512 million**	RM2,694 million
BAHT Term loans	**BAHT1,000 million**	BAHT1,000 million
EURO Term loans	**881 million**	Ä 904 million

These unsecured term loans bear interest at rates ranging from 1.24% to 5.12% (2009: 2.35% to 13.49%) per annum and are fully repayable at their various due dates from 2010 to 2023.

The unsecured Notes and Bonds comprise:

			2010	2009
USD Notes and Bonds				
7%	Notes*	Due 2012	**US$2,000 million**	US$2,000 million
6 1/8%	Notes*	Due 2014	**US$700 million**	US$700 million
7 3/4%	Bonds	Due 2015	**US$625 million**	US$625 million
5 1/4%	Guaranteed Notes*	Due 2019	**US$3,000 million**	-
7 7/8%	Notes*	Due 2022	**US$1,000 million**	US$1,000 million
7 5/8%	Bonds	Due 2026	**US$500 million**	US$500 million
Samurai Bonds				
6th	Series 3.40%	Due 2013	**¥16 billion**	¥16 billion

*Obtained by a subsidiary.

The secured term loans comprise:

	In million **2010**	**2009**	**Securities**
USD Term loans	**US$2,109**	US$1,965	Secured by way of mortgages over certain vessels, property, plant and equipment, together with assignments of earnings, charter agreements and insurance of the relevant vessels, property, plant and equipment of certain subsidiaries.
RM Term loans	**RM1,335**	RM1,232	Secured by way of a charge over certain vessels, property, plant and equipment and investment properties, together with assignments of earnings, charter agreements and insurance of the relevant vessels, property, plant and equipment of certain subsidiaries.

The secured term loans bear interest at rates ranging from 1.12% to 7.00% (2009: 4.09% to 8.50%) per annum and are fully repayable at their various due dates from 2010 to 2022.

25. BORROWINGS (continued)

Certain borrowings obtained by the Company are on-lent to subsidiaries, associates and jointly controlled entities. At balance sheet date, the outstanding amounts on-lent to subsidiaries, associates and jointly controlled entities are as follows:

		Company	
		2010	2009
		RM Mil	RM Mil
Subsidiaries	- within twelve months	**-**	56
	- after twelve months	**3,713**	4,097
		3,713	4,153
Associates and jointly controlled entities	- within twelve months	**31**	112
	- after twelve months	**81**	90
		112	202

In connection with the long term borrowing facility agreements, the Group and the Company have agreed on the following significant covenants with the lenders:

(a) not to allow any material indebtedness (the minimum aggregate amount exceeding US$30,000,000 or its equivalent in any other currency) for borrowed money of the Company to become due or capable of being declared due before its stated maturity, any material guarantee of the Company is not discharged at maturity or when validly called or the Company goes into default under, or commits a breach of, any instrument or agreement relating to any such indebtedness for borrowed money or guarantee and such default or breach remains unpaid or unremedied for a period of thirty (30) days;

(b) the Company (not including any of its subsidiaries) not to create, incur or have outstanding any mortgage, pledge, lien, charge, encumbrance or any other lien upon the whole or any part of its property or assets, present or future indebtedness of itself or any other person, unless the aggregate outstanding principal amount of all such secured indebtedness (other than indebtedness secured by the liens already in existence) plus attributable debt of the Company in respect of sales and leaseback transactions would not exceed ten per cent (10%) of the consolidated net tangible assets; and

(c) the Company (not including any of its subsidiaries) not to enter into any sale and leaseback transaction, unless the attributable debt in respect of such sale and leaseback transaction and all other sale and leaseback transaction plus the aggregate outstanding principal amount of indebtedness for borrowed money secured by security interests (other than permitted security interests) then outstanding which have not equally and rateably secured the total outstandings would not exceed ten per cent (10%) of the Company's tangible net worth provided that, within 12 months after such sale and leaseback transaction, it applies to the retirement of indebtedness for borrowed money the repayment obligations in respect of which are at least pari passu with its repayment obligations hereunder and which are not secured by any security interest, an amount equal to the greater of:

    (i) the net proceeds of the sale or transfer of the property or other assets which are the subject of such sale and leaseback transaction as determined by the Company; or

    (ii) the fair market value of the property or other assets so leased as determined by the Company.

26. ISLAMIC FINANCING FACILITIES

The secured Islamic financing facilities obtained by the subsidiaries comprise:

Secured	In million	
	2010	**2009**
Al Bai'bithaman Ajil long term facilities	**RM3,764**	RM3,135
Bai Al-Dayn Note Issuance Facilities	**RM387**	RM553

The secured Islamic financing facilities bear a yield payable ranging from 3.40% to 8.30% (2009: 3.40% to 8.30%) per annum and are fully repayable at their various due dates from 2010 to 2022.

The Islamic financing facilities are secured by way of a charge over certain property, plant and equipment, properties and investment properties.

The unsecured Islamic financing facilities obtained by the subsidiaries comprise:

Unsecured	In million	
	2010	**2009**
Murabahah Note Issuance Facilities	**RM1,500**	RM1,500
Al Murabahah Medium Term Notes	**RM5,700**	RM3,200
Sukuk Musyarakah	**RM300**	-
Ijarah Muntahiyah Bit Tamleek	**RM95**	-
Trust Certificates	**US$1,500**	-

The unsecured Islamic financing facilities bear a yield payable ranging from 3.60% to 6.25% (2009: 3.80% to 6.25%) per annum and are fully repayable at their various due dates from 2010 to 2018.

The Trust Certificates financing was obtained by the Company via a subsidiary of the Group (referred to as special purpose vehicle or "SPV"). In relation to this financing arrangement, certain subsidiaries sold their beneficial ownership of property, plant and equipment ("sukuk assets") with a net book value of RM3,034,000,000 to the SPV to hold in trust for and on behalf of the Trust Certificate holders. The SPV then leased this beneficial ownership of the sukuk assets to the Company in accordance with Syariah Principles.

27. OTHER LONG TERM LIABILITIES AND PROVISIONS

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Dismantlement, removal or restoration of property, plant and equipment	**22,683**	18,649	**21,552**	18,368
Retirement benefits (note 16)	**245**	205	**-**	-
Financial guarantees	**558**	722	**899**	1,054
Derivative liabilities (note 14)	**298**	106	**129**	142
Others	**1,998**	2,884	-	46
	25,782	22,566	**22,580**	19,610

The movement of provision for dismantlement, removal or restoration of property, plant and equipment during the financial year are as follows:

	Group	Company
	RM Mil	RM Mil
At 1 April 2009	18,649	18,368
Additional provision	3,510	2,738
Provision utilised	(3)	-
Unwinding of discount	499	446
Translation exchange difference	28	-
At 31 March 2010	**22,683**	**21,552**

Provision for dismantlement, removal or restoration of property, plant and equipment is recognised when there is an obligation to dismantle and remove a facility or an item of property, plant and equipment and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. The amount recognised is the present value of the estimated future costs determined in accordance with local conditions and requirements.

A corresponding asset of an amount equivalent to the provision is also created. This asset is depreciated in accordance with the policy set out in note 2.4.

The increase in the present value of the provision for the expected costs due to the passage of time is included within finance costs.

Most of these removal events are many years in the future and the precise requirements that will have to be met when the removal event actually occurs are uncertain. Because actual timing and cash outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, the carrying amounts of provisions, together with the interest rate used in discounting the cash flows and inflation rate, are regularly reviewed and adjusted to take account of such changes. The interest rate and inflation rate used to determine the balance sheet obligation as at 31 March 2010 was 4.42% (2009: 4.42%) and 3.0% (2009: 2.5%) respectively. Changes in the expected future costs are reflected in both the provision and the asset.

During the year, the Group and the Company revised estimated future costs of dismantlement, removal or restoration of property, plant and equipment. The revision was accounted for prospectively as a change in accounting estimates resulting in the following increases:

(i) provisions by RM1,860,000,000; and
(ii) net book value of property, plant and equipment by RM1,860,000,000;

The impact of the above revision is not material in relation to the Group's and the Company's net profits for the year.

28. TRADE AND OTHER PAYABLES

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Trade payables	**13,013**	15,749	**1,110**	1,089
Other payables	**18,976**	12,545	**2,733**	2,553
Amount due to:				
Subsidiaries*	**-**	-	**1,408**	860
Associates and jointly controlled entities*	**363**	834	**1**	9
Derivative liabilities (note 14)	**35**	216	**2**	5
	32,387	29,344	**5,254**	4,516

Included in other payables of the Group are security deposits of RM67,462,000 (2009: RM62,769,000) mainly held in respect of tenancies of a shopping centre and office buildings. These deposits are refundable upon termination of the respective lease agreements.

Also included in trade payables and amount due to associates of the Group are retention sums on construction contracts amounting to RM174,448,000 (2009: RM162,562,000).

* Amount due to subsidiaries, associates and jointly controlled entities arose in the normal course of business.

29. GROSS PROFIT

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Revenue				
- sales of oil and gas	**200,980**	241,610	**66,392**	95,364
- others	**1,465**	3,306	**-**	-
	202,445	244,916	**66,392**	95,364
- rendering of services	**2,990**	3,975	**50**	39
- shipping and shipping related services	**7,482**	11,204	**-**	-
- sale and rental of properties	**826**	29	**-**	-
	11,298	15,208	**50**	39
- dividend income				
in Malaysia (Quoted)				
- subsidiaries	**-**	-	**1,765**	1,746
- associates	**-**	-	**54**	62
- investments	**10**	18	**10**	18
in Malaysia (Unquoted)				
- subsidiaries	**-**	-	**13,263**	15,276
- associates	**-**	-	**122**	62
- investments	**35**	15	**35**	15
outside Malaysia (Quoted)				
- investments	**243**	226	**-**	-
	288	259	**15,249**	17,179
- interest income	**2,380**	3,792	**1,711**	2,766
	216,411	264,175	**83,402**	115,348
Cost of revenue				
- cost of sales	**(119,882)**	(145,431)	**(37,996)**	(48,238)
- cost of services	**(14,179)**	(12,103)	**-**	-
	(134,061)	(157,534)	**(37,996)**	(48,238)
Gross profit	**82,350**	106,641	**45,406**	67,110

30. OPERATING PROFIT

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Included in operating profit are the following charges:				
Audit fees	**30**	25	**1**	1
Amortisation of:				
- intangible assets	**154**	188	**-**	-
- prepaid lease payments	**56**	60	**4**	2
Bad debts written off:				
- others	**23**	19	**-**	-
Contribution to retirement benefits	**3**	99	**-**	21
Contribution to Tabung Amanah Negara	**100**	100	**100**	100
Depreciation of property, plant and equipment, properties and investment properties	**12,679**	12,702	**639**	1,214
Goodwill written off	**67**	-	**-**	-
Impairment losses on:				
- property, plant and equipment	**2,640**	4,037	**-**	-
- intangible assets	**144**	2	**-**	-
- trade and other receivables	**224**	66	**86**	-
- receivables from subsidiaries	**-**	-	**113**	-
- loan and advances to associates and subsidiaries	**5**	9	**27**	-
- investments in subsidiaries	**-**	-	**828**	-
- investments in associates and jointly controlled entities	**11**	30	**-**	9
- unquoted shares	**3**	-	**-**	-
Inventories:				
- written down to net realisable value	**2**	151	**-**	-
- written off	**14**	23	**-**	-
- adjustment*	**-**	1,547	**-**	-
Loss on disposal of property, plant and equipment	**50**	86	**-**	-
Loss on foreign exchange:				
- realised	**1,784**	1,741	**1,334**	-
- unrealised	**1,484**	1,624	**1,722**	-
Operating lease rental	**301**	472	**344**	325
Property, plant and equipment:				
- written off	**66**	225	**-**	-
- expensed off	**17**	21	**1**	2
Rental of:				
- land and buildings	**305**	312	**23**	37
- plant, machinery, equipment and motor vehicles	**586**	595	**50**	51
Research and development expenditure	**64**	55	**36**	6
Staff costs				
- wages, salaries and others	**6,233**	5,791	**583**	595
- contributions to Employee's Provident Fund	**704**	352	**116**	61

* Inventory adjustment for the previous year amounting to RM1,547,000,000 relates to an adjustment effected by a subsidiary to reflect a fair valuation of its inventory.

30. OPERATING PROFIT (continued)

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
and credits:				
Gain on disposal of:				
- property, plant and equipment	**19**	12	**-**	-
- subsidiaries, associates and jointly controlled entities	**-**	9	**-**	5
- other investments	**2**	2	**-**	-
Gain on foreign exchange:				
- realised	**474**	1,586	**-**	436
- unrealised	**1,464**	240	**-**	2,561
Interest income - others	**63**	227	**3,313**	2,340
Negative goodwill	**141**	-	**-**	-
Reversal of write down of inventories to net realisable value	**15**	43	**-**	-
Rental income on land and buildings	**158**	248	**122**	199
Reversal of contingent payment	**762**	-	**-**	-
Write back of impairment losses on:				
- trade and other receivables	**-**	-	**-**	29
- receivables from subsidiaries	**-**	-	**-**	33
- investments in subsidiaries	**-**	-	**-**	115
- prepaid lease payment	**-**	16	**-**	-

31. OPERATING LEASES

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Less than one year	**2,183**	2,191	**349**	160
Between one and five years	**3,195**	3,961	**524**	1,048
More than five years	**2,393**	2,683	**-**	-
	7,771	8,835	**873**	1,208

32. TAX EXPENSE

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Current tax expenses				
Malaysia				
Current year	**20,583**	30,387	**12,029**	19,709
Prior year	**(1,926)**	(1,027)	**(691)**	(86)
Overseas				
Current year	**1,514**	1,338	**-**	-
Prior year	**36**	(32)	**-**	-
	20,207	30,666	**11,338**	19,623
Deferred tax expense				
Origination and reversal of temporary differences	**1,114**	(319)	**(665)**	(25)
Under/(over) provision in prior year	**490**	(272)	**296**	(415)
	1,604	(591)	**(369)**	(440)
	21,811	30,075	**10,969**	19,183

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

		2010		**2009**
	%	**RM Mil**	%	**RM Mil**
Group				
Profit before taxation		**67,300**		89,139
Taxation at Malaysian statutory tax rate	25	**16,825**	25	22,285
Effect of different tax rates in foreign jurisdictions	2	**1,219**	-	274
Effect of different tax rates between corporate income tax and petroleum income tax	6	**4,342**	9	7,902
Effect of changes in tax rates	-	**(23)**	-	(5)
Non deductible expenses, net of non assessable income	7	**4,581**	7	6,025
Tax exempt income	(6)	**(3,844)**	(6)	(5,344)
Tax incentives	-	**(74)**	-	(28)
Effect of deferred tax benefits not recognised/(utilisation of deferred tax benefits previously not recognised)	1	**430**	-	(274)
Foreign exchange translation difference	-	**(245)**	-	571
	35	**23,211**	35	31,406
Over provision in prior years		**(1,400)**		(1,331)
Tax expense		**21,811**		30,075
Company				
Profit before taxation		**40,131**		69,019
Taxation at Malaysian statutory tax rate	25	**10,033**	25	17,255
Effect of different tax rates between corporate income tax and petroleum income tax	10	**3,877**	9	6,341
Non deductible expenses, net of non assessable income	2	**946**	-	83
Tax exempt income	(9)	**(3,492)**	(6)	(4,081)
	28	**11,364**	28	19,598
Over provision in prior years		**(395)**		(415)
Tax expense		**10,969**		19,183

33. DIVIDENDS

			Group and Company	
			2010	2009
			RM Mil	RM Mil
Ordinary:				
Final:				
2009	-	Tax exempt dividend of RM100,000 (2008: RM100,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967	**10,000**	10,000
Special:				
2010	-	Tax exempt dividend of RMNil (2009: RM60,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967	**-**	6,000
Interim:				
2010	-	First tax exempt dividend of RM60,000 (2009: RM80,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967	**6,000**	8,000
2010	-	Second tax exempt dividend of RM80,000 (2009: RM60,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967	**8,000**	6,000
2010	-	Third tax exempt dividend of RM60,000 (2009: RMNil) per ordinary share under section 84 of the Petroleum (Income Tax) Act,1967	**6,000**	-
			30,000	30,000
Proposed:				
Final:				
2010	-	Tax exempt dividend of RM100,000 (2009: RM100,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967	**10,000**	10,000

The proposed tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM100,000 per ordinary share amounting to RM10 billion in respect of the financial year ended 31 March 2010, has not been accounted for in the financial statements.

34. NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES

The cash (used in)/generated from investing activities comprise:

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Acquisition of:				
- subsidiaries, net of cash acquired (note 36)	**(2,253)**	(102)	**-**	-
- additional shares in subsidiaries	**(132)**	-	**(5,968)**	(280)
Dividends received	**288**	259	**11,712**	15,985
Investment in:				
- associates, jointly controlled entities and unquoted companies	**(361)**	(163)	**(72)**	(18)
- securities	**(9,743)**	(10,340)	**(9,351)**	(8,931)
Long term receivables and advances (to)/ repaid from:				
- subsidiaries	**-**	-	**(11,808)**	(18,529)
- associates and jointly controlled entities	**(667)**	905	**70**	(6)
Net cost incurred in property development cost	**(180)**	(162)	**-**	-
Other long term receivables	**(36)**	(257)	**-**	-
Proceeds from disposal of:				
- investment in associates and jointly controlled entities	**-**	5	**-**	9
- property, plant and equipment, prepaid lease payments and intangible assets	**1,247**	1,469	**-**	-
- securities	**26,595**	5,023	**25,665**	3,280
- assets held for sale	**-**	19	**-**	-
Purchase of:				
- property, plant and equipment, prepaid lease payments and intangible assets	**(37,090)**	(43,953)	**(46)**	(90)
- other investments	**(1,246)**	(1,839)	**-**	-
Redemption of preference shares in:				
- subsidiaries	**-**	-	**692**	30
- associates	**294**	262	**200**	-
- investments and loan stocks	**-**	27	**-**	27
	(23,284)	(48,847)	**11,094**	(8,523)

35. NET CASH USED IN FINANCING ACTIVITIES

The cash used in financing activities comprise:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
Dividends paid	**(30,000)**	(30,000)	**(30,000)**	(30,000)
Dividends paid to minority	**(5,283)**	(5,711)	**-**	-
Drawdown of:				
- Islamic financing facilities	**7,713**	-	**5,269**	-
- term loans, notes and bonds	**10,995**	9,290	**10,424**	-
- revolving credits and bankers' acceptance	**5,751**	5,059	**-**	-
Repayment of:				
- Islamic financing facilities	**(1,950)**	(1,071)	**-**	-
- term loans, notes and bonds	**(4,548)**	(6,153)	**-**	(616)
- revolving credits and bankers' acceptance	**(6,045)**	(5,396)	**-**	-
Payment to minority shareholders on redemption of shares	**(17)**	-	**-**	-
Proceeds from shares issued to minority shareholders	**1,955**	-	**-**	-
	(21,429)	(33,982)	**(14,307)**	(30,616)

36. ACQUISITIONS OF PARTICIPATING INTERESTS/SUBSIDIARIES

Acquisitions of participating interests

In January 2010, the Group via its subsidiary, PETRONAS Carigali Sdn. Bhd. signed Development and Production Service Contracts ("DPSC") for the acquisition of participating interests to develop four oil fields in Iraq namely Garraf (45%), Majnoon (30%), Halfaya (19%) and Badra (15%) oil fields, for a minimum financial obligation of approximately USD473.8 million.

Subsequent to the acquisition, PETRONAS Carigali Iraq B.V. was incorporated to hold 100% equity interests in PETRONAS Carigali Iraq (Garraf) Ltd., PETRONAS Carigali Iraq (Majnoon) Ltd., PETRONAS Carigali Iraq (Halfaya) Ltd. and PETRONAS Carigali Iraq (Badra) Ltd. which in turn hold interests in the respective DPSCs.

Acquisitions of subsidiaries

(i) PSE Kinsale Energy Limited and PSE Seven Heads Limited

On 17 April 2009, the Group acquired 100% equity interest in Marathon Oil Ireland Limited ("MOIL"), a company incorporated in Cayman Islands for a purchase consideration of USD180 million, which in turn owns 100% equity interest in Marathon Seven Heads Limited ("MSHL"), a company incorporated in Ireland. Subsequent to the acquisition, MOIL and MSHL changed their names to PSE Kinsale Energy Limited ("PSEKEL") and PSE Seven Heads Limited ("PSESHL"). The net profits contributed by PSEKEL and PSESHL from the date of acquisition to the year ended 31 March 2010 are not material in relation to the consolidated net profit for the year.

36. ACQUISITIONS OF PARTICIPATING INTERESTS/SUBSIDIARIES (continued)

Acquisitions of subsidiaries (continued)

(ii) Optimal Group of Companies

On 30 September 2009, the Group acquired additional equity interests in Optimal Olefins (M) Sdn. Bhd. ("OOMSB"), Optimal Chemicals (M) Sdn. Bhd. ("OCMSB") and Optimal Glycols (M) Sdn. Bhd. ("OGMSB") for a total purchase consideration of USD671 million via a Sale and Purchase Share Agreement with UCMG L.L.C and Union Carbide Corporation.

As a result, the Group increased its equity interests in OOMSB from 64.3% to 88.0% while OGMSB and OCMSB which were previously jointly controlled entities become wholly-owned subsidiaries of the Group. The net profits contributed by the additional equity holdings in these subsidiaries from the date of acquisition to the year ended 31 March 2010 amounting to RM88 million is included in the Group consolidated net profit for the year.

(iii) Other acquisitions of subsidiaries

During the year, the Group also acquired several other companies for a total purchase consideration of RM94 million. As a result, these companies became subsidiaries of the Group. The net profits contributed by these companies from the date of acquisition to the year ended 31 March 2010 is not material in relation to the consolidated net profit for the year.

The net effect of acquisitions of subsidiaries on the cash flows and fair values of assets and liabilities acquired are as follows:

	Carrying amount representing fair value at acquisition date RM Mil
Property, plant and equipment	2,458
Prepaid lease payments	75
Other assets	1,088
Cash and cash equivalents	840
Deferred taxation	231
Other liabilities	(2,084)
Minority shareholders' interest at date of acquisitions	(19)
	2,589
Add : Share of fair value of net identifiable assets relating to additional equity interests in subsidiary	346
Less : Interests previously held as jointly controlled entities	(1,009)
	1,926
Add : Goodwill on acquisition	1,308
Less : Negative goodwill on acquisition	(141)
Purchase consideration	3,093
Less : Cash and cash equivalents of subsidiaries acquired	(840)
Cash flow on acquisition, net of cash acquired (note 34)	2,253

37. COMMITMENTS

Outstanding commitments in respect of capital expenditure at balance sheet date not provided for in the financial statements are:

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Property, plant and equipment				
Approved and contracted for				
Less than one year	**19,293**	20,832	**75**	223
Between one and five years	**4,030**	7,488	**182**	35
	23,323	28,320	**257**	258
Approved but not contracted for				
Less than one year	**13,245**	23,560	**170**	22
Between one and five years	**35,743**	17,709	**484**	59
More than five years	**10**	-	**-**	-
	48,998	41,269	**654**	81
	72,321	69,589	**911**	339
Share of capital expenditure				
Approved and contracted for				
Less than one year	**4,342**	3,855	**-**	-
Between one and five years	**1,848**	788	**-**	-
	6,190	4,643	**-**	-
Approved but not contracted for				
Less than one year	**11,951**	4,170	**-**	-
Between one and five years	**34,523**	10,243	**-**	-
	46,474	14,413	**-**	-
	52,664	19,056	**-**	-
Investment in shares				
Approved and contracted for				
Less than one year	**305**	-	**-**	-
	305	-	**-**	-
Approved but not contracted for				
Less than one year	**306**	7	**-**	-
	306	7	**-**	-
	611	7	**-**	-
	125,596	88,652	**911**	339

38. CONTINGENT LIABILITIES (UNSECURED)

	Group		Company	
	2010	2009	**2010**	2009
	RM Mil	RM Mil	**RM Mil**	RM Mil
Guarantees extended to third parties	**638**	724	**-**	-
Claims filed by/disputes with various parties	**277**	483	**-**	-
Contingent payments	**210**	49	**-**	-
	1,125	1,256	**-**	-

The Terengganu State Government filed a legal suit against the Company in the year 2000 claiming that it was entitled to certain cash payments arising out of the production of crude oil and gas beyond the territorial waters of the State concerned. The amount of the cash payments has been fully accounted for in the financial statements. The legal suit is still on-going as at year end.

39. RELATED PARTY DISCLOSURES

Key management personnel compensation

	Company	
	2010	2009
	RM Mil	RM Mil
Directors remuneration:		
- Emoluments	**9**	9

The Company also paid fees to certain Directors amounting to RM167,500 (2009: RM174,000).

The estimated monetary value of Directors' benefits-in-kind is RM118,300 (2009: RM176,000).

The Group and the Company incurred legal fees of RM1,239,810 (2009: RM420,476) and RM413,365 (2009: RMNil) which are paid/payable to a firm in which a Director is a partner.

Significant transactions with related parties

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa. Related parties may be individuals or other entities.

39. RELATED PARTY DISCLOSURES (continued)

Significant transactions with related parties (continued)

In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

	Group	
	2010	**2009**
	RM Mil	**RM Mil**
Associate companies:		
Sales of petrochemical products, processed gas and utilities	**2,902**	3,744
Purchase of processed gas	**(376)**	(477)
Lease and rental expenses	**(145)**	(137)
Other expenses	**(167)**	(236)
Other income	**2**	2
Jointly controlled entities:		
Sales of petrochemical products, processed gas, petroleum products and general merchandise	**676**	1,481
Purchase of petrochemical products, processed gas and utilities	**(760)**	(654)
Interest receivable from jointly controlled entities	**73**	71
Gas processing fee payable	**(339)**	(323)
Other income	**3**	2

	Company	
	2010	**2009**
	RM Mil	**RM Mil**
Subsidiaries:		
Sales of crude oil, petroleum products and natural gas	**39,711**	53,848
Interest receivable from subsidiaries	**1,903**	1,297
Purchase of crude oil and natural gas	**(17,586)**	(20,498)
Gas processing fee payable	**(2,020)**	(2,109)
Research cess	**20**	124
Supplemental payments	**2,292**	4,988
Handling and storage fees	**(37)**	(31)
Associate companies:		
Sales of processed gas	**1,359**	1,681
Jointly controlled entities:		
Interest receivable from jointly controlled entities	**14**	19
Gas processing fee payable	**(339)**	(323)

Information regarding outstanding balances arising from related party transactions as at 31 March 2010 are disclosed in note 12, note 20 and note 28.

Information regarding impairment losses on receivables and bad debts written off during the financial year are disclosed in note 30.

The Directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business and have been established on a commercial basis. The above has been stated at contracted amount.

40. PRODUCTION SHARING CONTRACTS (the "PSC")

The Petroleum Development Act, 1974 vests the entire ownership, rights, powers, liberties and privileges of exploiting petroleum resources on land and offshore Malaysia in PETRONAS. The exploitation by PETRONAS of petroleum resources is carried out by means of production sharing contracts with international oil and gas companies and with its subsidiaries. Under the terms of the various PSCs that PETRONAS has entered into, the PSC Contractors bear all costs. The PSC Contractors may recover their costs in barrels of crude oil or gas equivalent in accordance with the terms of their respective PSCs.

Certain terms of the PSCs are:

40.1 Research Cess, Supplemental Payments and Crude Oil or Gas Entitlement

The determination of research cess, supplemental payments, and PETRONAS' and the contractors' entitlements to crude oil or gas produced subsequent to 31 December 1992 have been based on the returns submitted by contractors and is dependent on agreement being reached on the method of valuation of crude oil or gas and the quantum of costs incurred and claimed by contractors subject to the maximum rate provided under the production sharing contracts for the year. PETRONAS' entitlements to crude oil and natural gas are taken up as income on the basis of liftings and sales respectively made by the Company.

40.2 Property, plant and equipment

Title to all equipment and other assets purchased or acquired by PSC Contractors exclusively for the purpose of petroleum operations, and which costs are recoverable in barrels of cost oil or gas equivalent, vested with PETRONAS. However, the values of these assets are not taken up in the financial statements of PETRONAS other than:

i) the property, plant and equipment of a subsidiary which is also a contractor to PETRONAS under certain PSCs; and

ii) the costs of dismantling and removing the assets and restoring the site on which they are located where there is an obligation to do so.

40.3 Inventories

Title to all crude oil held in inventories by the PSC Contractors lies with PETRONAS and title to the contractors' entitlement passes only upon delivery at point of export. However, the values of these inventories are not taken up in the financial statements of PETRONAS.

41. FINANCIAL INSTRUMENTS

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(i) Loans and receivables ("L&R");
(ii) Fair value through profit or loss ("FVTPL");
- Held for trading ("HFT"), or
- Designated upon initial recognition ("DUIR");
(iii) Available-for-sale financial assets ("AFS");
(iv) Loans and borrowings ("L&B").

2010 Group	Note	L&R/ (L&B) RM Mil	FVTPL - DUIR RM Mil	FVTPL - HFT RM Mil	AFS RM Mil	Total carrying amount RM Mil
Financial assets						
Long term receivables	*	2,579	-	398	-	2,977
Fund and other investments	13	737	7,952	-	28,260	36,949
Trade and other receivables	*	27,166	-	63	-	27,229
Cash and cash equivalents	17	104,125	-	-	-	104,125
		134,607	7,952	461	28,260	171,280
Financial liabilities						
Borrowings	25	(51,870)	-	-	-	(51,870)
Other long term liabilities	*	(558)	-	(298)	-	(856)
Trade and other payables	*	(31,601)	-	(35)	-	(31,636)
Dividend payable		(6,000)	-	-	-	(6,000)
		(90,029)	-	(333)	-	(90,362)

* These balances exclude non-financial instruments balances which are not within the scope of FRS 139, *Financial Instruments: Recognition and Measurement.*

Fund and other investments have been designated upon initial recognition as at fair value through profit or loss as management internally monitors these investments on fair value basis.

Comparative figures have not been presented for 31 March 2009 by virtue of the exemption given in paragraph 44AA of FRS 7, *Financial Instruments: Disclosures.*

41. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

2010 **Company**	**Note**	**L&R/ (L&B)** **RM Mil**	**FVTPL - DUIR** **RM Mil**	**FVTPL - HFT** **RM Mil**	**AFS** **RM Mil**	**Total carrying amount** **RM Mil**
Financial assets						
Long term receivables	*	73,076	-	1,219	-	74,295
Fund and other investments	13	-	8,761	-	11,807	20,568
Trade and other receivables	*	14,835	-	21	-	14,856
Cash and cash equivalents	17	56,677	-	-	-	56,677
		144,588	8,761	1,240	11,807	166,396
Financial liabilities						
Borrowings	25	(28,621)	-	-	-	(28,621)
Other long term liabilities	*	(899)	-	(129)	-	(1,028)
Trade and other payables	*	(5,235)	-	(2)	-	(5,237)
Dividend payable		(6,000)	-	-	-	(6,000)
		(40,755)	-	(131)	-	(40,886)

* These balances exclude non-financial instruments balances which are not within the scope of FRS 139, *Financial Instruments: Recognition and Measurement.*

The fair value of borrowings is shown in page 114. For all other financial instruments, the carrying amount is either the fair value, or are not materially different from the fair value.

The fair value movements for financial assets categorised as at fair value through profit or loss are mainly attributable to changes in market price.

41. FINANCIAL INSTRUMENTS (continued)

Financial risk management

As an integrated oil and gas company, the Group and the Company are exposed to various risks that are particular to its core business of exploration and production, gas, petrochemical, oil business and logistics and maritime. These risks, which arise in the normal course of the Group and the Company's business, comprises credit risk, liquidity risk and market risks relating to interest rates, foreign currency exchange rates, equity prices and commodity prices.

The Group has a Group Risk Management Framework and Guideline that sets the foundation for the establishment of effective risk management across the PETRONAS Group.

The Group and the Company's goal in risk management are to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Company. Based on this assessment, each business unit adopts appropriate measures to mitigate these risks in accordance with the business unit's view of the balance between risk and reward.

Credit risk

Credit risk is the potential exposure of the Group and the Company to losses in the event of non-performance by counterparties. The Group and the Company's exposures to credit risk arise principally from their receivables from customers, investment securities and financial guarantees given to subsidiaries. Credit risks are controlled by individual operating units in line with the Group Risk Management Framework and Guideline.

Receivables

The Group and the Company minimise credit risk by entering into contracts with highly credit rated counterparties. Potential counterparties are subject to credit assessment and approval prior to any transaction being concluded and existing counterparties are subject to regular reviews, including re-appraisal and approval of granted limits. The creditworthiness of counterparties is assessed based on an analysis of all available quantitative and qualitative data regarding business risks and financial standing, together with the review of any relevant third party and market information. Reports are regularly prepared and presented to the management that cover the Group's overall credit exposure against limits and securities, exposure by segment and overall quality of the portfolio.

Depending on the types of transactions and counterparty creditworthiness, the Group and the Company further mitigate and limit risks related to credit by requiring collateral or other credit enhancements such as cash deposits, letter of credit and bank guarantees.

Exposure to losses increases with concentrations of credit risk which may exist when a number of counterparties are involved in similar activities or operate in the same industry sector or geographical area, which may result in their ability to meet contractual obligations being impacted by changes in economic, political or other conditions. The Group's principal customers with which it conducts business are located throughout the world and there is no significant concentration of credit risk at balance sheet date.

41. FINANCIAL INSTRUMENTS (continued)

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is equal to the carrying amount. The Group uses ageing analysis to monitor the credit quality of the receivables.

The ageing of receivable net of impairment amount as at the end of the reporting period is analysed below.

	2010	
	Group RM Mil	Company RM Mil
At net		
Current	17,511	2,286
Past due 1 to 30 days	397	24
Past due 31 to 60 days	417	47
Past due 61 to 90 days	72	21
Past due more than 90 days	826	128
	19,223	2,506
Representing:		
Trade receivables (note 20)	20,091	2,995
Less: Impairment losses (note 20)	(868)	(489)
	19,223	2,506

With respect to the Group's receivables, there are no indications as of the reporting date that the debtors will not meet their payment obligations except for impairment losses recognised below. Certain receivables past due are secured by bank guarantees and cash deposits valued at RM7,233,000.

The movements in the allowance for impairment losses of trade receivables during the year are as follows:

	Group RM Mil	Company RM Mil
At 1 April 2009	707	411
Impairment loss recognised	161	78
At 31 March 2010	868	489

Fund and other investment

The Group has a Group Treasury Investment Guideline that defines the parameters within which the investment activities shall be undertaken in order to achieve the Group's investment objective of preserving capital and generating optimal returns above appropriate benchmarks within allowable risk parameters. In accordance with the guideline, investments are only allowed with highly credit rated counterparties.

The treasury function undertakes a credit risk management activity similar to the credit management and monitoring procedures for receivables.

As at the reporting date, the Group and Company has invested 94% of the investments in domestic securities and 6% in foreign securities.

The fund and other investments are unsecured, however, in view of the sound credit rating of counterparties, management does not expect any counterparty to fail to meet its obligation.

41. FINANCIAL INSTRUMENTS (continued)

Financial guarantees

The Group and the Company provide unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries, jointly controlled entities and associates ("Group entities"). The Group and the Company monitor on an ongoing basis, the results of the Group entities and repayments made by the Group entities.

The maximum exposure to credit risk amounted to RM4,550,000,000 which represents the outstanding banking facilities of the Group entities as at reporting date. As at reporting date, there was no indication that any Group entities would default on repayment. The fair value of the financial guarantee recognised is disclosed in note 27.

Liquidity Risk

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. In managing its liquidity risk, the Group maintains sufficient cash and liquid marketable assets. The Company's current credit rating enables it to access banking facilities in excess of current and immediate future requirements of the Group and the Company. The Group's borrowing power is not limited by its Articles of Association. However, certain covenants included in agreements impose limited restrictions on some of the debt level of PETRONAS' subsidiaries.

Maturity analysis

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the reporting date based on undiscounted contractual payments:

41. FINANCIAL INSTRUMENTS (continued)

Maturity analysis *(continued)*

2010 Group	Carrying amount RM Mil	Effective interest rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil
Financial liabilities				
Loans and borrowings				
Secured Term Loans				
USD fixed rate loan	2,062	5.35	2,255	426
USD floating rate loan	628	2.34	666	98
RM fixed rate loan	575	6.44	877	93
RM floating rate loan	480	2.96	558	31
Other fixed rate loans	7	7.25	7	7
Unsecured Term Loans				
USD fixed rate loan	74	9.70	91	18
USD floating rate loan	3,604	5.06	4,088	145
RM fixed rate loan	1,263	5.52	1,423	268
RM floating rate loan	489	3.14	535	324
EURO fixed rate loan	24	3.60	26	3
EURO floating rate loan	3,744	1.24	4,053	56
BAHT floating rate loan	137	1.52	140	22
ZAR fixed rate loan	41	7.04	50	15
Other fixed rate loans	29	12.41	44	10
Unsecured Notes and Bonds				
USD Notes	12,149	3.78	17,007	715
USD Guaranteed Notes	9,686	5.01	15,024	515
USD Bonds	3,675	4.73	6,609	242
JPY Bonds	567	2.89	630	19
Unsecured revolving credits				
BAHT revolving credits	64	2.88	65	65
USD revolving credits	128	4.10	133	133
RM revolving credits	458	2.85	471	471
Other revolving credits	24	7.00	26	26
Unsecured bank overdrafts				
USD bank overdrafts	3	3.16	3	3
EURO bank overdrafts	11	6.13	12	12
ZAR bank overdrafts	293	7.12	313	313
Secured Islamic financing facilities				
RM Islamic financing facilities	1,601	6.40	1,948	363
Unsecured Islamic financing facilities				
USD Islamic financing facilities	4,894	4.05	5,803	208
RM Islamic financing facilities	5,160	4.58	6,122	1,020
Trade and other payables	31,601	-	31,601	31,601
Dividend payables	6,000	-	6,000	6,000
Fair value through profit or loss – held for trading				
Derivative liabilities	333	-	333	35
	89,804		106,913	43,257

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41. FINANCIAL INSTRUMENTS (continued)

***Maturity analysis** (continued)*

2010 Group	1-2 years RM Mil	2-5 years RM Mil	More than 5 years RM Mil
Financial liabilities			
Loans and borrowings			
Secured Term Loans			
USD fixed rate loan	430	1,218	181
USD floating rate loan	236	266	66
RM fixed rate loan	92	656	36
RM floating rate loan	33	94	400
Other fixed rate loans	-	-	-
Unsecured Term Loans			
USD fixed rate loan	33	40	-
USD floating rate loan	171	3,772	-
RM fixed rate loan	180	948	27
RM floating rate loan	22	64	125
EURO fixed rate loan	16	4	3
EURO floating rate loan	98	3,896	3
BAHT floating rate loan	29	67	22
ZAR fixed rate loan	14	20	1
Other fixed rate loans	20	6	8
Unsecured Notes and Bonds			
USD Notes	715	10,180	5,397
USD Guaranteed Notes	515	1,545	12,449
USD Bonds	242	726	5,399
JPY Bonds	19	592	-
Unsecured revolving credits			
BAHT revolving credits	-	-	-
USD revolving credits	-	-	-
RM revolving credits	-	-	-
Other revolving credits	-	-	-
Unsecured bank overdrafts			
USD bank overdrafts	-	-	-
ZAR bank overdrafts	-	-	-
EURO bank overdrafts	-	-	-
Secured Islamic financing facilities			
RM Islamic financing facilities	670	677	238
Unsecured Islamic financing facilities			
USD Islamic financing facilities	208	5,387	-
RM Islamic financing facilities	1,290	2,295	1,517
Trade and other payables	-	-	-
Dividend payables	-	-	-
Fair value through profit or loss – held for trading			
Derivative liabilities	187	111	-
	5,220	32,564	25,872

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41. FINANCIAL INSTRUMENTS (continued)

***Maturity analysis** (continued)*

2010 Company	**Carrying amount RM Mil**	**Effective interest rates per annum %**	**Contractual cash flows RM Mil**	**Within 1 year RM Mil**
Financial liabilities				
Loans and borrowings				
Unsecured Notes and Bonds				
USD Notes	9,799	3.23	14,621	715
USD Guaranteed Notes	9,686	5.01	15,024	515
USD Bonds	3,675	4.73	6,871	283
JPY Bonds	567	2.89	630	19
Unsecured Islamic financing facilities				
USD Islamic financing facilities	4,894	4.05	5,803	208
Trade and other payables	5,235	-	5,235	5,235
Dividend payables	6,000	-	6,000	6,000
Fair value through profit or loss – held for trading				
Derivative liabilities	131	-	131	2
	39,987		54,315	12,977

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41. FINANCIAL INSTRUMENTS (continued)

Maturity analysis *(continued)*

2010 Company	**1-2 years RM Mil**	**2-5 years RM Mil**	**More than 5 years RM Mil**
Financial liabilities (continued)			
Loans and borrowings			
Unsecured Notes and Bonds			
USD Notes	715	7,828	5,363
USD Guaranteed Notes	515	1,545	12,449
USD Bonds	283	849	5,456
JPY Bonds	19	592	-
Unsecured Islamic financing facilities			
USD Islamic financing facilities	208	5,387	-
Trade and other payables	-	-	-
Dividend payables	-	-	-
Fair value through profit or loss – held for trading			
Derivative liabilities	-	129	-
	1,740	16,330	23,268

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41. FINANCIAL INSTRUMENTS (continued)

Market risk

Market risk is the risk or uncertainty arising from changes in market prices and their impact on the performance of the business. The market price changes that the Group and the Company is exposed to include interest rates, foreign currency exchange rates, commodity price, equity prices and other indices that could adversely affect the value of the Group's and the Company's financial assets, liabilities or expected future cash flows.

Interest rate risk

The Group's and the Company's investments in fixed-rate debt securities and fixed rate borrowings are exposed to a risk of change in their fair values due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short term receivables and payables are not significantly exposed to interest rate risk.

In managing interest rate risk, the Group and the Company maintain a balanced portfolio of fixed and floating rate instruments. All interest rate exposures are monitored and managed proactively by Group Treasury based on Group Risk Management Framework and Guideline. The Group also enters into hedging transactions with respect to interest rate on selected long term borrowings and other debts.

The interest rate profile of the Group's and the Company's interest-bearing financial instruments based on carrying amount as at reporting date is as follows:

	Group RM Mil	Company RM Mil
Fixed rate instruments		
Financial assets	120,426	120,003
Financial liabilities	(46,860)	(28,621)
	73,566	91,382
Floating rate instruments		
Financial assets	1,476	11,939
Financial liabilities	(5,105)	-
	(3,629)	11,939

Since most of the Group's and the Company's financial assets and liabilities are fixed rate instruments measured at amortised cost, a change in interest rate is not expected to have material impact on the Group's and the Company's profit or loss.

41. FINANCIAL INSTRUMENTS (continued)

Foreign exchange risk

The Group and the Company are exposed to varying levels of foreign exchange risk when they enter into transactions that are not denominated in the respective companies' functional currencies and when foreign currency monetary assets and liabilities are translated at the reporting date. The main underlying economic currencies of the Group's cash flows are Ringgit Malaysia and US Dollars.

The Group and the Company's foreign exchange management policy is to minimise economic and significant transactional exposures arising from currency movements. The Group coordinates the handling of foreign exchange risks centrally. The Group and the Company mainly rely on the natural hedge generated by the fact that most of their revenue and expenses are currently denominated in US Dollar. In addition, the Group and the Company, where applicable, hedge using derivative instruments in respect of current and forecasted transaction.

The Group's and Company's significant exposure to foreign currency risk, based on carrying amounts as at the reporting date is as follows:

	Group Denominated in		Company Denominated in	
2010	**USD RM Mil**	**MYR RM Mil**	**USD RM Mil**	**MYR RM Mil**
Financial assets				
Loan and advances to subsidiaries	53,892	-	48,294	-
Cash and cash equivalents	18,123	6,139	17,490	-
Trade and other receivables	5,752	634	2,778	-
Long term receivables	609	-	-	-
Fund and other investments	341	77	341	-
Other financial assets	841	-	1,565	-
	79,558	6,850	70,468	-
Financial liabilities				
Loan and advances from holding company	(16,682)	(9,192)	-	-
Borrowings	(28,421)	-	(28,054)	-
Trade and other payables	(3,490)	(2,019)	(1,256)	-
Other financial liabilities	(835)	-	-	-
	(49,428)	(11,211)	(29,310)	-
Net exposure	30,130	(4,361)	41,158	-

41. FINANCIAL INSTRUMENTS (continued)

Foreign exchange risk *(continued)*

Sensitivity analysis for a given market variable provided in this note, discloses the effect on profit or loss and equity as at 31 March 2010 assuming that a reasonably possible change in the relevant market variable had occurred at 31 March 2010 and been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity to the next annual reporting date. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for equity and commodity prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgment and historical experience.

The sensitivity analysis is hypothetical and should not be considered to be predictive of future performance because the Group's actual exposure to market prices is constantly changing with changes in the Group's portfolio of among others, commodity, debt and foreign currency contracts. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a given market variable is calculated independently of any change in another assumption and mitigating actions that would be taken by the Group. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities.

The following table demonstrates the indicative pre-tax effects on the profit or loss and equity of applying reasonably foreseeable market movements in the following currency exchange rates:

		Group		Company	
2010	**Change in currency rate**	**Reserve RM Mil**	**Profit or loss RM Mil**	**Reserve RM Mil**	**Profit or loss RM Mil**
	%				
USD	5	1,990	(643)	-	2,216
MYR	5	-	(215)	-	-

A decrease in change in currency rate above would have had equal but opposite effect, on the basis that all other variables remain constant.

Equity price risk

Equity price risk arises from the Group's and Company's investments in equity securities.

The Group and the Company have Investment Guidelines in place to minimise their exposures on price risk. Permitted investment in terms of allowable financial instruments, minimum credit rating and markets are stipulated in the Investment Guidelines. The Group and the Company monitors the equity investments on a portfolio basis and a performance benchmark is established for each investment portfolio giving consideration to portfolio objectives and return expectation. All buy and sell decision are monitored by the Group Treasury Division.

The Group and the Company also hold equity investment for strategic purposes, that are classified as non-current available-for-sale financial assets. Reports on the equity portfolio performance are submitted to the Group and the Company's senior management on a regular basis.

The Group's and Company's exposure to equity price risk based on carrying amounts as at the reporting date are RM778,000,000 in local equities and RM15,845,000,000 in foreign equities.

41. FINANCIAL INSTRUMENTS (continued)

The following table demonstrates the indicative pre-tax effects on the profit or loss and equity of applying reasonably foreseeable market movements in the following equities:

	Change in price based on average change in index rate	Group		Company	
		Reserve	Profit or loss	Reserve	Profit or loss
2010	%	RM Mil	RM Mil	RM Mil	RM Mil
Local equities	15	117	-	51	-
Foreign equities	20	3,153	16	-	-

A decrease in change in index rate above would have had equal but opposite effect, on the basis that all other variables remain constant.

Commodity price risk

The Group is exposed to changes in crude oil and petroleum products prices which may affect the value of the Group's assets, liabilities or expected future cash flows. To mitigate these exposures from a business perspective, the Group enters into various financial instruments. In effecting these transactions, the Group operates within policies and procedures designed to ensure that risks are minimised. All financial instruments positions are marked-to-market by independent risk management department and reported to management for performance monitoring and risk management purposes on a daily basis.

Since the Group undertakes hedging using commodity derivatives for the majority of its transactions, a change in commodity price is not likely to result in a significant impact on the Group's and the Company's profit or loss and equity.

41. FINANCIAL INSTRUMENTS (continued)

Fair value

The fair values of financial liabilities measured at amortised cost, together with the carrying amounts are as follows:

Group	Note	2010 Carrying amount RM Mil	2010 Fair value RM Mil	2009 Carrying amount RM Mil	2009 Fair value RM Mil
Loans and borrowings					
Notes and Bonds	25	**26,077**	**28,541**	23,282	24,515
Term loans	25	**13,157**	**13,023**	14,070	13,649
Islamic financing facilities	25	**11,655**	**12,440**	5,799	6,237
Bank overdraft	25	**307**	**307**	155	155
Revolving credit	25	**674**	**674**	592	592

Company	Note	2010 Carrying amount RM Mil	2010 Fair value RM Mil	2009 Carrying amount RM Mil	2009 Fair value RM Mil
Loans and borrowings					
Notes and Bonds	25	**23,727**	**25,993**	19,192	20,459
Islamic financing facilities	25	**4,894**	**4,932**	-	-

Income/expense, net gains and losses arising from financial instruments

Group	Interest income RM Mil	Interest expense RM Mil	Impairment loss RM Mil	Others RM Mil	Total RM Mil
31 March 2010					
Financial instruments at fair value through profit or loss					
- Held for trading	-	-	-	23	23
- Designated upon initial recognition	505	-	-	22	527
Available-for-sale					
- recognised in profit or loss	698	-	(3)	283	978
- recognised in equity	-	-	-	6,489	6,489
Loans and receivables					
- recognised in profit or loss	1,240	-	(229)	(1,787)	(776)
- recognised in equity	-	-	-	(1,047)	(1,047)
Financial liabilities at amortised cost	-	(2,027)	-	265	(1,762)
Total	2,443	(2,027)	(232)	4,248	4,432

41. FINANCIAL INSTRUMENTS (continued)

Company	Interest income RM Mil	Interest expense RM Mil	Impairment loss RM Mil	Others RM Mil	Total RM Mil
31 March 2010					
Financial instruments at fair value through profit or loss					
- Held for trading	-	-	-	431	431
- Designated upon initial recognition	440	-	-	(52)	388
Available-for-sale					
- recognised in profit or loss	359	-	-	35	394
- recognised in equity	-	-	-	168	168
Loans and receivables	4,225	-	(226)	(2,994)	1,005
Financial liabilities at amortised cost	-	(504)	-	-	(504)
Total	5,024	(504)	(226)	(2,412)	1,882

Others relates to gains and losses arising from financial instruments other than interest income, interest expense and impairment loss such as realised and unrealised foreign exchange gains or losses, dividend income, and fair value gains or losses.

42. CAPITAL MANAGEMENT

The Group defines its capital as total consolidated equity and debt of the Group. The objective of the Group's capital management is to maintain an optimal capital structure and ensure availability of funds in order to support the Group's business and maximise shareholder value. The Group's approach in managing capital is set out in the PETRONAS Group Corporate Financial Policy.

The Group monitors and maintains a prudent level of total debt to total asset ratio to optimise shareholder value and to ensure compliance with covenants.

There were no changes in the Group's approach to capital management during the year.

43. NEW AND REVISED PRONOUNCEMENTS YET IN EFFECT

The following new and revised FRSs, statement of interpretations and amendments to FRS and statement of interpretations (collectively referred to as "pronouncements") from the Malaysian Accounting Standards Board will become effective for future financial reporting periods and have not yet been adopted by the Group.

Effective for annual periods beginning on or after 1 July 2009

FRS 8	*Operating Segments*

Effective for annual periods beginning on or after 1 January 2010

FRS 4	*Insurance Contracts*
FRS 101	*Presentation of Financial Statements (revised)*
FRS 123	*Borrowing Costs (revised)*
Amendment to FRS 1	*First-time Adoption of Financial Reporting Standards and FRS 127, Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
Amendment to FRS 5	*Non-current Assets Held for Sale and Discontinued Operations*
Amendment to FRS 107	*Cash Flow Statements*
Amendment to FRS 108	*Accounting Policies, Changes in Accounting Estimates and Errors*
Amendment to FRS 110	*Events After the Balance Sheet Date*
Amendment to FRS 116	*Property, Plant and Equipment*
Amendment to FRS 117	*Leases*
Amendment to FRS 118	*Revenue*
Amendment to FRS 119	*Employee Benefits*
Amendment to FRS 123	*Borrowing Costs*
Amendment to FRS 127	*Consolidated and Separate Financial Statements*
Amendment to FRS 128	*Investments in Associates*
Amendment to FRS 131	*Interests in Joint Ventures*
Amendments to FRS 132	*Financial Instruments: Presentation (Puttable Financial Instruments and Obligations Arising on Liquidation/Separation of Compound Instruments)*
Amendment to FRS 134	*Interim Financial Reporting*
Amendment to FRS 136	*Impairment of Assets*
Amendments to FRS 139	*Financial Instruments: Recognition and Measurement, FRS 7, Financial Instruments: Disclosures and IC Interpretation 9, Reassessment of Embedded Derivatives*
Amendment to FRS 140	*Investment Property*
IC Interpretation 14 FRS 119	*The Limit on a Defined Benefit Assets, Minimum Funding Requirements and Their Interaction*

Effective for annual periods beginning on or after 1 March 2010

Amendments to FRS 132	*Financial Instruments: Presentation (Classification of Rights Issue)*

43. NEW AND REVISED PRONOUNCEMENTS YET IN EFFECT (continued)

Effective for annual periods beginning on or after 1 July 2010

FRS 1	*First-time Adoption of Financial Reporting Standards (revised)*
FRS 3	*Business Combinations (revised)*
FRS 127	*Consolidated and Separate Financial Statements (revised)*
Amendment to FRS 5	*Non-current Assets Held for Sale and Discontinued Operations*
Amendment to FRS 8	*Operating Segments*
Amendment to FRS 138	*Intangible Assets*
IC Interpretation 12	*Service Concession Agreements*
IC Interpretation 15	*Agreements for the Construction of Real Estate*
IC Interpretation 16	*Hedges of a Net investment in a Foreign Operation*
IC Interpretation 17	*Distribution of Non-cash Assets to Owner*
Amendments to IC 9	*Reassessment of Embedded Derivatives*

Effective for annual periods beginning on or after 1 January 2011

Amendment to FRS 1	*First-time Adoption of Financial Reporting Standard - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters*
Amendments to FRS 7	*Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*

Initial application of these pronouncements for the Group and the Company will be effective from the annual period beginning:

(i) 1 April 2010 for pronouncements which are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010; and

(ii) 1 April 2011 for pronouncements which are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011.

By virtue of the exemptions in paragraph 41AA of FRS 4 and paragraph 30AA of IC Interpretation 12, the impact of applying FRS 4 and IC Interpretation 12 respectively on the financial statements upon first adoption of these standards as required by paragraph 30(b) of FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors* is not disclosed.

The adoption of other FRSs, statement of interpretations and amendments to FRSs and statement of interpretations are not expected to have any material impact on the financial statements of the Group and of the Company in the period of initial application.

The Company will also voluntarily adopt FRS 8 for the annual period beginning 1 April 2010. FRS 8 requires segment disclosure based on the components of an entity that management monitors in making decisions about operating matters. Such components (operating segments) are identified on the basis of internal reports that the entity's chief operating decision maker reviews regularly in allocating resources to segments and in assessing their performance. The adoption of FRS 8 will have no effect on the Group and the Company's reported income or net assets.

44. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE COMPANY

The MASB has issued statement of interpretations and amendments to FRSs which are not yet effective, but for which are not relevant to the operations of the Group and the Company and, hence, no further disclosure is warranted:

Effective for annual periods beginning on or after 1 January 2010

Amendment to FRS 2	*Share-based Payment; Vesting Conditions and Cancellations*
Amendment to FRS 120	*Accounting for Government Grants and Disclosure of Government Assistance*
Amendment to FRS 129	*Financial Reporting in Hyperinflationary Economies*
Amendments to FRS 139	*Financial Instruments: Recognition and Measurement (Reclassification of Financial Asset/ Collective Assessment of Impairment for Banking Institutions)*
IC Interpretation 11 FRS 2	*Group and Treasury Share Transactions*

Effective for annual periods beginning on or after 1 July 2010

Amendments to FRS 2	*Share-based Payment*

45. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES

The significant subsidiary undertakings of the Company at 31 March 2010 and the Group percentage of share capital are set out below.

		Effective Percentage Holding 2010 %	Effective Percentage Holding 2009 %	Country of Incorporation	Principal Activities
	AET Inc. Limited	62.6	62.4	Bermuda	Ship-owning and operations.
*	Aromatics Malaysia Sdn. Bhd.	70.0	70.0	Malaysia	Production and sale of aromatics products.
*	Asean Bintulu Fertilizer Sdn. Bhd.	63.5	63.5	Malaysia	Production and sale of urea and ammonia.
∞	Asean LNG Trading Co. Ltd.	100.0	100.0	Malaysia	Trading of liquefied natural gas ("LNG").
	Engen Limited	80.0	80.0	South Africa	Refining of crude oil and marketing of refined petroleum products.
	Doba Pipeline Investment Inc.	100.0	100.0	Cayman Islands	Investment holding.
	Engen Petroleum Ltd.	80.0	80.0	South Africa	Refining and distribution of petroleum products.
*	Ethylene Malaysia Sdn. Bhd.	72.5	72.5	Malaysia	Production and sale of ethylene.
*	Institute of Technology PETRONAS Sdn. Bhd.	100.0	100.0	Malaysia	Institute of higher learning.
*	KLCC (Holdings) Sdn. Bhd.	100.0	100.0	Malaysia	Property investment related activities and property development.
*@	KLCC Property Holdings Berhad	52.6	51.0	Malaysia	Property investment, hotel and recreation.
	Kuala Lumpur Convention Centre Sdn. Bhd.	100.0	100.0	Malaysia	Property investment related activities and property development.
	Malaysia Deepwater Floating Terminal (Kikeh) Limited	31.8	31.8	Malaysia	Floating, production, storage and off-loading ("FPSO") owner.
*	Malaysia LNG Sdn. Bhd.	90.0	90.0	Malaysia	Liquefaction and sale of liquefied natural gas.
*	Malaysia LNG Dua Sdn. Bhd.	60.0	60.0	Malaysia	Liquefaction and sale of liquefied natural gas.
*	Malaysia LNG Tiga Sdn. Bhd.	60.0	60.0	Malaysia	Liquefaction and sale of liquefied natural gas.
*	Malaysian International Trading Corporation Sdn. Bhd.	100.0	100.0	Malaysia	Petrochemicals and general trading.

45. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES (continued)

		Effective Percentage Holding 2010 %	2009 %	Country of Incorporation	Principal Activities
	Malaysian International Trading Corporation (Japan) Sdn. Bhd.	100.0	100.0	Malaysia	Trading and procurement of equipment spares and materials.
*	Malaysian Refining Company Sdn. Bhd.	53.0	53.0	Malaysia	Refining of crude oil.
	Malaysia Marine and Heavy Engineering Sdn. Bhd.	62.6	62.4	Malaysia	Marine repair, marine conversion and engineering and construction.
	Midciti Resources Sdn. Bhd.	76.1	75.3	Malaysia	Property investment.
*@	MISC Berhad	62.6	62.4	Malaysia	Shipping and shipping related activities.
∞	MITCO Labuan Co. Ltd.	100.0	100.0	Malaysia	Petrochemicals and general merchandise trading.
	MSE Holdings Sdn. Bhd.	62.6	62.4	Malaysia	Investment holding.
*	MTBE Malaysia Sdn. Bhd.	100.0	100.0	Malaysia	Production and sale of methyl tertiary butyl ether and propylene.
*	Optimal Olefins (Malaysia) Sdn. Bhd.	88.0	64.3	Malaysia	Manufacturing and marketing of ethylene, propylene and other hydrocarbon products.
*	Optimal Chemicals (Malaysia) Sdn. Bhd.	100.0	50.0	Malaysia	Manufacturing and selling ethylene and propylene derivative products.
*	Optimal Glycols (Malaysia) Sdn. Bhd.	100.0	50.0	Malaysia	Manufacturing and selling ethylene oxide, ethylene glycol and other glycols.
	PAPL (Upstream) Pty. Ltd.	100.0	100.0	Australia	Exploration and production of coal seam gas.
	PC JDA Ltd.	100.0	100.0	Republic of Mauritius	Petroleum operations.
	PC Vietnam Ltd.	100.0	100.0	Republic of Mauritius	Petroleum operations.
*	PETRONAS Ammonia Sdn. Bhd.	100.0	100.0	Malaysia	Production and sale of ammonia, syngas and carbon monoxide.
	PETRONAS Australia Pty. Ltd.	100.0	100.0	Australia	Investment holding.
	PETRONAS Capital Ltd.	100.0	100.0	Malaysia	Investment holding.

45. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES (continued)

		Effective Percentage Holding 2010 %	2009 %	Country of Incorporation	Principal Activities
*	PETRONAS Carigali Sdn. Bhd.	100.0	100.0	Malaysia	Exploration and production of oil and gas.
	PETRONAS Carigali (Chad EP) Inc.	100.0	100.0	Cayman Islands	Petroleum operations.
	PETRONAS Carigali Chad Exploration and Production Inc.	100.0	100.0	Cayman Islands	Petroleum operations.
	PETRONAS Carigali (Jabung) Ltd.	100.0	100.0	Bahamas	Petroleum operations.
	PETRONAS Carigali Nile Ltd.	100.0	100.0	Republic of Mauritius	Petroleum operations.
	PETRONAS Carigali Overseas Sdn. Bhd.	100.0	100.0	Malaysia	Investment holding and petroleum operations.
	PETRONAS Carigali (Turkmenistan) Sdn. Bhd.	100.0	100.0	Malaysia	Petroleum operations.
*@	PETRONAS Dagangan Berhad	69.9	69.9	Malaysia	Marketing of petroleum products and operation of service stations.
*	PETRONAS Fertilizer (Kedah) Sdn. Bhd.	100.0	100.0	Malaysia	Production and sale of urea, ammonia and methanol.
*@	PETRONAS Gas Berhad	60.6	60.6	Malaysia	Processing and transmission of natural gas.
	PETRONAS Global Sukuk Limited	100.0	-	Malaysia	Investment holding.
*∞	PETRONAS International Corporation Ltd.	100.0	100.0	Malaysia	Investment holding.
	PETRONAS Lubricants Italy S.p.A	100.0	100.0	Italy	Manufacturing and distribution of lubricants and system fluids for motor vehicles and industrial applications.
*	PETRONAS Lubricants International. Sdn. Bhd.	100.0	100.0	Malaysia	Investment holding, manufacturing and trading of lubricant products.
	PETRONAS Marketing Sudan Ltd.	100.0	100.0	Sudan	Marketing of petroleum products.
*	PETRONAS Methanol (Labuan) Sdn. Bhd.	100.0	100.0	Malaysia	Production and sale of methanol.
*	PETRONAS Penapisan (Melaka) Sdn. Bhd.	100.0	100.0	Malaysia	Refining and condensation of crude oil.

45. **SIGNIFICANT SUBSIDIARIES AND ACTIVITIES** (continued)

		Effective Percentage Holding 2010 %	2009 %	Country of Incorporation	Principal Activities
*	PETRONAS Penapisan (Terengganu) Sdn. Bhd.	100.0	100.0	Malaysia	Refining and condensation of crude oil.
	PETRONAS Tankers Sdn. Bhd.	62.6	62.4	Malaysia	Investment holding and provision of management services.
*	PETRONAS Trading Corporation Sdn. Bhd.	100.0	100.0	Malaysia	Trading of crude oil and petroleum products.
∞	PICL (Egypt) Corporation Ltd.	100.0	100.0	Malaysia	Investment holding, exploration, production and marketing of oil and gas.
	PICL Siri Company Ltd.	100.0	100.0	Thailand	Holding company.
	Putrajaya Holdings Sdn. Bhd.	64.4	64.4	Malaysia	Property owner and developer.
	Star Energy Group Plc	100.0	100.0	United Kingdom	Provision of gas storage facilities, exploration, development and production of crude oil, sale of natural gas and electricity generation.
	Suria KLCC Sdn. Bhd.	31.6	30.6	Malaysia	Property investment.

* Subsidiaries held directly by the Company.
@ The shares of these subsidiaries are quoted on the Main Board of Bursa Malaysia.
∞ Companies incorporated under the Labuan Offshore Companies Act, 1990.

46. SIGNIFICANT ASSOCIATES AND ACTIVITIES

	Effective Percentage Holding 2010 %	Effective Percentage Holding 2009 %	Country of Incorporation	Principal Activities
BASF PETRONAS Chemicals Sdn. Bhd.	40.0	40.0	Malaysia	Own and operate acrylic acid and oxo plants.
Bintulu Port Holdings Berhad	32.8	32.8	Malaysia	Port management.
Cameroon Oil Transportation Company SA	29.8	29.8	Republic of Cameroon	Pipeline projects.
El Behera Natural Gas Liquefaction Company S.A.E.	35.5	35.5	Egypt	Liquefaction and sale of liquefied natural gas ("LNG").
Gas Malaysia Sdn. Bhd.	20.0	20.0	Malaysia	Selling, marketing, distribution and promotion of natural gas.
IDKU Natural Gas Liquefaction Company S.A.E.	38.0	38.0	Egypt	Manufacturing and production of LNG.
PP Oil & Gas (Indonesia-Jabung) Limited	50.0	50.0	United Kingdom	Exploration and production of oil and gas.
Taninthayi Pipeline Co. LLC	40.9	40.9	Cayman Islands	Construction and development of pipeline and transportation of gas.
Tchad Oil Transportation Company SA	30.2	30.2	Republic of Chad	Pipeline projects.
The Egyptian LNG Company S.A.E.	35.5	35.5	Egypt	Owning, managing and developing the land and the common facilities related to the Egyptian LNG facility.

47. SIGNIFICANT JOINTLY-CONTROLLED ENTITIES AND ACTIVITIES

	Effective Percentage Holding 2010 %	2009 %	Country of Incorporation	Principal Activities
BP PETRONAS Acetyls Sdn. Bhd.	30.0	30.0	Malaysia	Manufacture, sell and distribute acetic acid.
Dragon LNG Group Ltd.	30.0	30.0	United Kingdom	Operate LNG import and storage terminal.
Trans Thai-Malaysia (Thailand) Ltd.	50.0	50.0	Thailand	Storing, transporting, distributing and selling of natural gas.
Indianoil PETRONAS Private Limited	50.0	50.0	India	Manufacture and bottling services of LPG.

48. COMPARATIVE FIGURES

Certain comparative figures of the Group and the Company have been reclassified to ensure consistency with the current year's presentation.

	Group		Company	
	As restated RM Mil	As previously stated RM Mil	As restated RM Mil	As previously stated RM Mil
Balance Sheet				
Non-current assets				
Long term receivables	2,811	2,428	67,803	67,278
Current assets				
Trade and other receivables	26,001	24,726	10,949	9,674
Non-current liabilities				
Borrowings	35,491	35,108	15,575	15,192
Current liabilities				
Borrowings	8,455	7,180	3,617	2,342
Cash Flow Statement				
Cash paid to suppliers and employees	(141,535)	(139,635)	(47,621)	(47,328)
Net cash generated from operating activities	95,054	96,954	42,730	43,023
Net increase in cash and cash equivalents	12,225	14,125	3,591	3,884
Net foreign exchange differences	1,900	-	293	-

REPORT OF THE AUDITORS TO THE MEMBERS

Report on the Financial Statements

We have audited the financial statements of Petroliam Nasional Berhad, which comprise the balance sheets as at 31 March 2010 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 92 to 200.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 March 2010 and of their financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Appendix I to the financial statements.

c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG Desa Megat & Co.
Firm Number: AF 0759
Chartered Accountants

Abdullah Abu Samah
Partner
Approval Number: 2013/06/10(J)
Chartered Accountant

Petaling Jaya, Malaysia

Date: 26 May 2010

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS

Gas District Cooling (Holdings) Sdn. Bhd. and its subsidiaries:

- Gas District Cooling (KLIA) Sdn. Bhd.
- Gas District Cooling (UTP) Sdn. Bhd.

KLCC (Holdings) Sdn. Bhd. and its subsidiaries:

- Aliran Moden Sdn. Bhd.
- Cititower Sdn. Bhd.
- Convex Malaysia Sdn. Bhd.
- Gas District Cooling (M) Sdn. Bhd.
- Gilang Cendana Sdn. Bhd.
- Hasrat Intisari (M) Sdn. Bhd.
- HLP Bina Sdn. Bhd.
- Impian Bebas Sdn. Bhd.
- Indah Putrajaya Sdn. Bhd.
- Kenyalang Murni Sdn. Bhd.
- KLCC Projeks Sdn. Bhd.
- KLCC Real Estate Management Sdn. Bhd.
- Kuala Lumpur City Centre Development Berhad
- Kuala Lumpur City Park Berhad
- Layar Intan Sdn. Bhd.
- Menara Putrajaya Sdn. Bhd.
- Pedoman Purnama Sdn. Bhd.
- Purnama Sepi Sdn. Bhd.
- Putrajaya Corporate Services Sdn. Bhd.
- Putrajaya Group Sdn. Bhd.
- Putrajaya Homes Sdn. Bhd.
- Putrajaya Projects Sdn. Bhd.
- Putrajaya Resources Sdn. Bhd.
- Senandung Asli Sdn. Bhd.
- Tapak Senja Sdn. Bhd.
- Arah Moden Sdn. Bhd.
- City Centre Convention Centre Sdn. Bhd.
- Gagasan Ria Sdn. Bhd.
- Gas District Cooling (Putrajaya) Sdn. Bhd.
- Heritage Lane Sdn. Bhd.
- Ilham Merpati Sdn. Bhd.
- Idaman Putrajaya Sdn. Bhd.
- Impian Moden Sdn. Bhd.
- Kelana Perkasa Sdn. Bhd.
- KLCC Convention Centre Sdn. Bhd.
- KLCC Properties Sdn. Bhd.
- Komponen Abadi Sdn. Bhd.
- Kuala Lumpur City Centre Holdings Sdn. Bhd.
- Kuala Lumpur Convention Centre Sdn. Bhd.
- Lembah Putrajaya Sdn. Bhd.
- Metro Kemasik Sdn. Bhd.
- Pedoman Semarak Sdn. Bhd.
- Putrajaya Capital Management Sdn. Bhd.
- Putrajaya Development Sdn. Bhd.
- Putrajaya Holdings Sdn. Bhd.
- Putrajaya Management Sdn. Bhd.
- Putrajaya Properties Sdn. Bhd.
- Putrajaya Ventures Sdn. Bhd.
- Serba Harapan (M) Sdn. Bhd.

KLCC Property Holdings Berhad and its subsidiaries:

- Arena Johan Sdn. Bhd.
- Asas Klasik Sdn. Bhd.
- KLCC Parking Management Sdn. Bhd.
- Kompleks Dayabumi Sdn. Bhd.
- Suria KLCC Sdn. Bhd.
- Arena Merdu Sdn. Bhd.
- Impian Cemerlang Sdn. Bhd.
- KLCC Urusharta Sdn. Bhd.
- Midciti Resources Sdn. Bhd.

Marmel Incorporated and its subsidiaries:

- Darton Ltd.
- GCB Associates LLC
- Sparknight LLC
- WG Parcel B LLC
- World Gateway Investments Inc.
- Darton U.S. Holdings Inc.
- Grabhorn Properties LLC
- WG Parcel B Management LLC
- World Gateway Property Owners Association

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRM OF ACCOUNTANTS (continued)

MISC Berhad and its subsidiaries:

- AET Agencies Inc.
- AET Inc. Limited
- AET Offshore Services Inc.
- AET Shipmanagement (India) Private Limited
- AET Shipmanagement (Singapore) Pte. Ltd.
- AET Tankers Pte. Ltd.
- American Marine Offshore Services Limited
- Asia LNG Transport Dua Sdn. Bhd.
- FPSO Ventures Sdn. Bhd.
- Malaysia Deepwater Floating Terminal (Kikeh) Limited
- Malaysian Maritime Academy Sdn. Bhd.
- Malaysia Marine and Heavy Engineering (Turkmenistan) Sdn. Bhd.
- MILS - Seafrigo Sdn. Bhd.
- MILS - SterilGamma Sdn. Bhd.
- MISAN Logistics B.V.
- MISC Agencies (Australia) Pty. Ltd.
- MISC Agencies (Netherlands) B.V.
- MISC Agencies (Sarawak) Sdn. Bhd.
- MISC Agencies (U.K.) Ltd.
- MISC Capital (L) Limited
- MISC Ferry Services Sdn. Bhd.
- MISC Haulage Services Sdn. Bhd.
- MISC International (L) Limited
- M.I.S.C. Nigeria Ltd.
- MISC Offshore Holdings (Brazil) Sdn. Bhd.
- MISC Ship Management Sdn. Bhd.
- MISC Tanker Holdings (Bermuda) Limited
- MMHE-ATB Sdn. Bhd.
- PETRONAS Tankers Sdn. Bhd.
- Puteri Delima Satu (L) Private Limited
- Puteri Firus Satu (L) Private Limited
- Puteri Intan Satu (L) Private Limited
- Puteri Nilam Satu (L) Private Limited
- Puteri Zamrud Satu (L) Private Limited
- Techno Indah Sdn. Bhd.
- AET Holdings (L) Pte. Ltd.
- AET Lightering Services LLC
- AET Petroleum Tanker (M) Sdn. Bhd.
- AET Shipmanagement (Malaysia) Sdn. Bhd.
- AET Tanker Holdings Sdn. Bhd.
- AET U.K. Limited
- Asia LNG Transport Sdn. Bhd.
- Bunga Kasturi (L) Pte. Ltd.
- Leo Launches Private Limited
- Malaysia Deepwater Production Contractors Sdn. Bhd.
- Malaysia Marine and Heavy Engineering Sdn. Bhd.
- Malaysia Offshore Mobile Production (Labuan) Ltd.
- MILS - Seafrigo Cold Chain Logistics Sdn. Bhd.
- MISA (B) Sdn. Bhd.
- MISC Agencies Sdn. Bhd.
- MISC Agencies (Japan) Ltd.
- MISC Agencies (New Zealand) Limited
- MISC Agencies (Singapore) Private Limited
- MISC Enterprises Holdings Sdn. Bhd.
- MISC Floating Production System (Gumusut) Ltd.
- MISC Offshore Mobile Production (Labuan) Ltd
- MISC Integrated Logistics Sdn. Bhd.
- MISC Offshore Floating Terminals (L) Limited
- MISC Properties Sdn. Bhd.
- MISC Tanker Holdings Sdn. Bhd.
- MISC Trucking and Warehousing Services Sdn. Bhd.
- MMHE-SHI LNG Sdn. Bhd.
- MSE Corporation Sdn. Bhd.
- MSE Holdings Sdn. Bhd.
- Puteri Delima Sdn. Bhd.
- Puteri Firus Sdn. Bhd.
- Puteri Intan Sdn. Bhd.
- Puteri Mutiara Satu (L) Private Limited
- Puteri Nilam Sdn. Bhd.
- Puteri Zamrud Sdn. Bhd.

PETRONAS Carigali Sdn. Bhd. and its subsidiaries:

- Doba Pipeline Investment Inc.
- PC Gulf Ltd.
- PC (North East Madura IV) Ltd.
- PC (SE Palung Aru) Ltd. (fka PETRONAS Carigali Bahrain Ltd.)
- PC (Timor Sea 06-102) Ltd.
- PETRONAS Carigali (Australia) Pty. Ltd.
- PETRONAS Carigali (Chad EP) Inc.
- PETRONAS Carigali (Ketapang) Ltd.
- PETRONAS Carigali (Surumana) Ltd.
- PC Algeria Ltd. (ϒ)
- PC Lampung II Ltd.
- PC Randugunting Ltd.
- PC South Pars II Ltd.
- PC Venezuela Ltd.
- PETRONAS Carigali (Baisun) Operating Company LLC
- PETRONAS Carigali (Karapan) Ltd.
- PETRONAS Carigali Ketapang II Ltd.
- PETRONAS Carigali (Surkhanski) Operating Company LLC

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRM OF ACCOUNTANTS (continued)

PETRONAS Carigali Sdn. Bhd. and its subsidiaries: (continued)

- PETRONAS Carigali (Tanjung Jabung) Ltd.
- PETRONAS Carigali Equatorial Guinea Ltd.
- PETRONAS Chad Marketing Inc.
- PETRONAS Carigali Myanmar II Inc.
- PETRONAS Carigali Niger Exploration & Production Ltd.
- PETRONAS Carigali Vietnam (B10 & B11-1) Ltd.
- PETRONAS Carigali White Nile (5B) Ltd.
- PETRONAS Carigali (Mandar) Ltd.
- PETRONAS Carigali (Oman) Ltd.
- PETRONAS Carigali Iraq (Garraf) Ltd.
- PETRONAS Carigali Iraq (Halfaya) Ltd
- PETRONAS Carigali Iraq Holding B.V.
- PETRONAS Carigali (Tanjung Aru) Ltd.
- PETRONAS Carigali Chad Exploration & Production Inc.
- PETRONAS Carigali International Sdn. Bhd.
- PETRONAS Carigali Mozambique E&P Ltd.
- PETRONAS Carigali Nigeria Limited
- PETRONAS Carigali Overseas Sdn. Bhd.
- Seerat Refinery Investment Inc.
- PETRONAS Carigali Mozambique (Rovuma Basin) Ltd.
- PETRONAS Carigali Cameroon Ltd.
- PETRONAS Carigali (Baisun) Ltd.
- PETRONAS Carigali (West Glagah Kambuna) Ltd.
- PETRONAS Carigali Iraq (Majnoon) Ltd.
- PETRONAS Carigali Iraq (Badra) Ltd.

PETRONAS Hartabina Sdn. Bhd. and its subsidiaries:

- Prince Court Medical Centre Sdn. Bhd.
- PRBF Properties Corporation Sdn. Bhd.
- PRBF Holdings Corporation Sdn. Bhd.

PETRONAS International Corporation Ltd. and its subsidiaries:

- Aktol Chemicals (Pty.) Ltd.
- Azania Petroleum (Pty.) Ltd.
- BGI Maun (Pty.) Ltd.
- BGI Properties Ltd.
- Citycat Trading 4 (Pty.) Ltd.
- East Australia Pipeline Marketing Pty. Limited
- Engen African Minority Holdings
- Engen Gabon S.A. (Piza Shell S.A.)
- Engen Group Funding Trust
- Engen Holdings (Ghana) Ltd.
- Engen International Holdings (Mauritius) Ltd.
- Engen Lesotho (Pty.) Ltd.
- Engen Marketing Botswana (Pty.) Ltd.
- Engen (Nigeria) Ltd.
- Engen Offshore Holdings (Mauritius) Ltd.
- Engen Swaziland (Pty.) Ltd.
- Engen Rwanda Ltd.
- Engen Zimbabwe (PVT) Ltd.
- Engen Petroleum International Ltd.
- Engen Petroleum (Mocambique) Limitada
- Engen Petroleum Zambia Ltd.
- Engen Petroleum Ltd. (Malawi)
- Engen Guinea-Bissau Ltd.
- Federico Trading (Pty.) Ltd.
- Gameskin Manufacturers
- Global Resources Ltd. (ϒ)
- Asean LNG Trading Co. Ltd.
- BGI Mahalpye (Pty.) Ltd.
- BGI Palapye (Pty.) Ltd.
- Cavallo Engineering & Construction (Pty.) Ltd.
- Chemico (Pty.) Ltd.
- Durban Liquid Storage
- Engen African Holdings
- Engen Botswana Limited (β)
- Engen Ghana Ltd.
- Engen Holdings (Pty.) Ltd.
- Engen Holdings Zimbabwe (PVT) Ltd.
- Engen Kenya Ltd.
- Engen Limited
- Engen Marketing Ltd.
- Engen Marketing Zimbabwe Ltd.
- Engen Namibia (Pty.) Ltd.
- Engen Producing (Nigeria) Ltd.
- Engen Uganda Ltd.
- Engen Petroleum (Burundi) Ltd.
- Engen Petroleum (DRC) Ltd.
- Engen Petroleum Ltd.
- Engen Petroleum Tanzania Ltd.
- Engen Petroleum Zimbabwe (PVT) Ltd.
- Enpet Africa Insurance Ltd.
- Enpet Insurance Ltd.
- Gedney Properties (Pty.) Ltd.

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRM OF ACCOUNTANTS (continued)

PETRONAS International Corporation Ltd. and its subsidiaries: (continued)

- Ivory Properties (Pty) Ltd.
- MITCO Labuan Co. Limited.
- Myanmar PETRONAS Trading Co. Ltd.
- Namibia Petroleum (Pty.) Ltd.
- New Jack Trading (Pty.) Ltd.
- Overseas Gas Storage Limited
- PAPL (Upstream) Pty Limited
- PC JDA Ltd.
- PC Mauritania I Pty. Ltd. (ϒ)
- PC Muriah Ltd.
- PC Myanmar (Hong Kong) Ltd. (ϒ)
- PETGAS Trading (UK) Ltd. (ϒ)
- Petroleum Investment Holding Ltd.
- PETRONAS Carigali Gas Ltd.
- PETRONAS Carigali Myanmar Inc.
- PETRONAS Carigali Nile Ltd.
- PC Greenland Holdings Ltd.
- PC Greenland A/S
- PETRONAS Cambodia Company Ltd.
- PETRONAS Carigali (Pakistan) Ltd.
- PETRONAS Carigali (Urga) Ltd.
- PETRONAS China Co. Ltd. (α)
- PETRONAS Marketing (China) Co. Ltd. (ϒ)
- PETRONAS Marketing Sudan Ltd.
- PETRONAS Myanmar Limited
- PETRONAS Philippines Inc. (α)
- PETRONAS (Thailand) Co. Ltd.
- PETRONAS Vietnam Co. Ltd.
- PICL Siri Company Limited
- PICL Downstream (Mauritius) Ltd.
- PSE Kinsale Energy Ltd.
- PT PETRONAS Niaga Indonesia (ϒ)
- Quickstep 285 (Pty.) Ltd.
- Renaissance Petroleum (Pty.) Ltd.
- SEP Burundi
- Shell Republique Democratique Du Congo
- Star Energy (East Midlands) Limited
- Star Energy Group Plc
- Star Energy Limited
- Star Energy Oil UK Limited
- The Fifth Retail Ltd.
- Trek Petroleum (Pty.) Ltd.
- Thang Long LPG JV Company Ltd.
- Valais Investments (Pty.) Ltd.
- Waldeck Investment (Pty.) Ltd.
- Gas Storage Limited
- Imtrasel (Pty) Ltd.
- Labuan Energy Corporation Limited
- LEC Ireland Employment Ltd.
- MITCO Labuan India Private Ltd.
- Nada Properties Co. Ltd. (ϒ)
- Natuna 1 B.V.
- Oil Tanking EPZ (Pty.) Ltd.
- Pakenzyl (Pty.) Ltd.
- Parsi International Ltd.
- PC Madura Ltd.
- PC Mauritania II B.V. (ϒ)
- PC Myanmar Holdings Ltd. (ϒ)
- PC Vietnam Ltd.
- Petrarch Petroleum (Pty.) Ltd.
- PETRONAS Argentina S.A. (ϒ)
- PETRONAS Australia Pty. Ltd. (ϒ)
- PETRONAS Carigali (Jabung) Ltd.
- PETRONAS Carigali Myanmar III Inc.
- PETRONAS Carigali (Turkmenistan) Sdn. Bhd.
- PETRONAS Carigali (Urga) Operating
- PETRONAS Energy Philippines, Inc.
- PETRONAS Marketing (India) Private Ltd.
- PETRONAS Marketing (Thailand) Co. Ltd.
- PETRONAS Natuna Sdn. Bhd.
- PETRONAS Retail (Thailand) Co. Ltd.
- PETRONAS Retail Property (Thailand) Co. Ltd.
- PICL Marketing Thailand Ltd. (ϒ)
- PICL (Egypt) Corporation Ltd.
- Phu My Plastics and Chemicals Company Ltd. (α)
- PSE Ireland Limited
- PSE Seven Head Ltd.
- Quickstep 284 (Pty.) Ltd.
- Quickstep 286 (Pty.) Ltd.
- Rockyhill Properties (Pty.) Ltd.
- Sirri International Ltd.
- Sonap Petroleum (South Africa) (Pty.) Ltd.
- Star Energy Gas Storage Services Limited
- Star Energy HG Gas Storage Limited
- Star Energy Oil and Gas Limited
- Star Energy Weald Basin Limited
- Total Guinea – Bissau Ltd.
- Universal Property Company Limited
- Ximex Energy Holdings (PVT) Ltd.
- Zenex Oil (Pty.) Ltd.

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRM OF ACCOUNTANTS (continued)

PETRONAS Maritime Services Sdn. Bhd. and its subsidiaries:

- Kertih Port Sdn. Bhd.
- Sungai Udang Port Sdn. Bhd.

PETRONAS Assets Sdn. Bhd. and its subsidiaries:

- iPerintis Sdn Bhd.
- Petrofibre Network (M) Sdn. Bhd.

PLI (Netherlands) B.V. and its subsidiaries:

- PETRONAS Lubricants Italy S.p.A (α)
- Finco (UK) Ltd. (α)
- Sole Finco S.A. (α)
- PETRONAS Lubricants Belgium N.V. (formerly known as Sun Oil Company N.V.) (α)
- PETRONAS Lubricants Brasil S.A. (formerly known as FL Brasil S.A.) (α)
- Viscosity Oil Co.(formerly known as FL Viscosity Oil Co.) (α)
- PETRONAS Lubricants France S.a.s. (formerly known as FL France S.a.s) (α)
- PETRONAS Lubricants Poland Sp.Zo.o (FL Poland Sp Zo.o) (α)
- PETRONAS Lubricants Netherlands B.V. (formerly known as Sunoco Holland B.V.) (α)
- PETRONAS Lubricants Argentina S.A. (formerly known as FL Argentina S.A.) (α)
- PETRONAS Madeni Yaglar TIC LTD STI (formerly known as FL Madeni Yaglar Ticaret Limited) (α)
- PETRONAS Lubricants Great Britain Ltd. (formerly known as FL Great Britain Ltd.) (α)
- PETRONAS Lubricants Spain S.L.U. (formerly known as Nueva FL Iberica S.L.) (α)
- PETRONAS Lubricants Deutschland GmbH (formerly knows as FL Schmierstoffe GmbH) (α)
- FL Maroc S.A. (α)
- Viscosity Oil Finco LLC (α)
- PETRONAS Lubricants Portugal Lda (formerly known as FL Portugal Lda) (α)

Subsidiaries held directly by the Company:

- Energas Insurance (L) Limited
- PETLIN (M) Sdn. Bhd.
- PETRONAS Cambodia Tankage Services Co. Ltd.
- PETRONAS Fertilizer (Kedah) Sdn. Bhd.
- PETRONAS Management Training Sdn. Bhd.
- PETRONAS South Africa (Pty.) Ltd. (α)
- Vinyl Chloride (Malaysia) Sdn. Bhd.
- Optimal Olefins (Malaysia) Sdn. Bhd.
- Optimal Glycols (Malaysia) Sdn. Bhd.
- Institute of Technology PETRONAS Sdn. Bhd.
- PETRONAS Ammonia Sdn. Bhd.
- PETRONAS e-Learning Solutions Sdn. Bhd.
- PETRONAS India (Holdings) Co. Pte. Ltd. (α)
- PETRONAS NGV Sdn. Bhd.
- Styrene Monomer (Malaysia) Sdn. Bhd.
- SPE Engine Solutions Sdn. Bhd.
- Optimal Chemicals (Malaysia) Sdn. Bhd.

ϒ Consolidated based on management financial statements.
α Audited by overseas office of KPMG.
@ The shares of this subsidiary are quoted on the Main Board of Bursa Malaysia.
β The shares of this subsidiary are quoted on the Botswana Stock Exchange.

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Cover design:
PETRONAS' core businesses are derived from beneath the Earth's surface, discovered through seismic imaging